EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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CHINA
Closing the door on rapid reform
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World News

Socialists gain ground in municipal French polls

France's ruling Socialist party gained ground in yesterday's second round of municipal elections, winning back over two thirds of the major towns it lost to the right in 1983. The Socialists gained control in Strasbourg, Brest, Mulhouse and 9 other large towns. Page 26

Gandhi report
India's opposition parties are claiming a major victory over the decision by Mr Rajiv Gandhi, Prime Minister, to publish a secret report into the assassination of his mother, Mrs Indira Gandhi, by her Sikh security guards. Earlier report, Page 6

Election deaths
Security forces killed two Salvadorean journalists, and a Dutch reporter also died in crossfire, as voting got under way in presidential elections and at least three soldiers died in fighting between government troops and leftist guerrillas trying to sabotage the polls. Page 4

Seoul ballot chaos
South Korea was engulfed in political confusion as rival parties campaigned both for and against a national referendum on President Roh Tae Woo's performance. Page 6

Israel shootings
Four Arab rioters and an Israeli soldier were killed in a weekend of escalating violence in Israel and the occupied Gaza Strip. At least 40 Palestinians and four Israelis were wounded. Page 4

Basque peace rally
Moderate Basque opinion turned out in force in Bilbao at the weekend for an unprecedented peace rally that called on the separatist organisation ETA to prolong indefinitely its 10-week ceasefire. Page 2

Recruit poll test
Takeshi Numata, backed by the ruling Liberal Democratic Party, won a third term as governor of Chiba, Tokyo's eastern neighbour, but with a reduced majority in one of two elections viewed as a test for the party in the light of the continuing Recruit Cosmos scandal. Page 6

DC9 inquiry ordered
Italy's air force has been ordered to set up an internal inquiry following presentation of the first authoritative report to confirm that a missile was responsible for the loss of the Itavia DC9 which crashed north of Sicily in 1980 with the loss of 81 lives. Page 2

Cypriot protest
About 3,000 Greek-Cypriot women stormed past troops into north Cyprus, breaching the Green Line, to protest at the division of the island. Some were taken into Turkish-Cypriot custody. Page 2

SA trains crash
Two people were killed and about 150 injured when two trains crashed head-on at Industria, west of Johannesburg, South Africa.

Test for US Speaker
Jim Wright, Speaker of the US House of Representatives, faces a test of political survival this week when the House Ethics committee is to vote on an investigation into his financial dealings. Page 3

Lockerbie pressure
Paul Channon, UK Transport Secretary, will today face renewed pressure to make a statement in parliament on his department's handling of the bomb warnings which preceded the Lockerbie air disaster in which 270 were killed. Page 26

Japan tanker sinks
The Liberian-registered chemical tanker, Maassgusar, drifting ablaze off Japan since Tuesday, sank with no sign of the 23 crewmen.

Greek earthquake
An earthquake, measuring 5.8 points on the Richter scale, shook Athens and eastern Greece damaging the airport building on the holiday island of Skiathos.

Business Summary

Brussels to clear UK loan to Shorts

UK GOVERNMENT is due to get clearance from the European Commission this week to make a £390m ($670m) bridging loan to Short Brothers to pave the way for the sale of the struggling state-owned aerospace group.

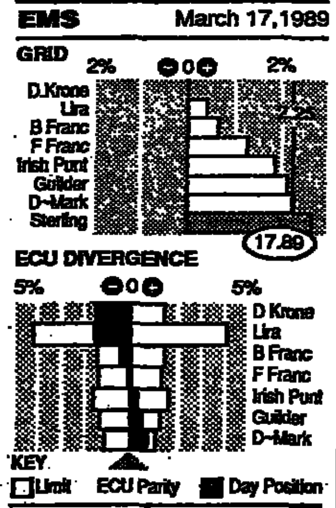
Wednesday's full weekly meeting of the 17 Commissioners is almost certain to sanction the UK's plan to provide the already heavily indebted Belfast-based company with a three-month loan at commercial rates of interest. Page 12

EUROPEAN Monetary System: The D-Mark continued as the strongest currency within the EMS last week despite its losses against the French franc and the dollar.

Central banks intervened to control the dollar's rise but investors continue to switch out of the D-Mark because a rise in US interest rates is considered more likely than an increase in West German rates.

The Danish krone remained the weakest member, and fell on Friday to trade around its divergence limit.

EMS March 17,1989



The chart shows the two constraints on European Monetary System rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (ECU), a basket of European currencies. Currencies, Page 40

EASTERN AIRLINES, strike-bound seventh largest US air carrier, has put most of its fleet of 230 aircraft up for sale, to increase pressure on its pilots' union and to generate sufficient cash for bankruptcy proceedings. Page 30

ASCOM, Swiss telecommunications group, clinched victory in its $110m bid for Rockaway, a US manufacturer and distributor of mail handling equipment. Page 30

BEKAERT, world's largest steel wire and cord maker, has unveiled a 26 per cent recovery in 1988 net profits, more than making up for previous year's drop in earnings. Page 30

ORDER banning imports of certain types of memory chips made by Hyundai of South Korea issued by the US International Trade Commission. Page 6

FINLAND'S markka is expected to rise by about 4 per cent in foreign exchange markets today following the central bank's decision to adjust the trade-weighted band of values within which it seeks to keep the currency. Page 2

MANVILLE, US fibre glass, forest products and speciality products group, is planning to expand its European operations. Page 30

POLAROID has won a major court victory improving its chances of defeating a takeover offer from Shamrock Holdings, investment vehicle of Mr Roy Disney, California businessman. Page 30

CAVENDISH International Holdings, investment and natural resources arm of Hutchison Whampoa, controlled by Mr Li Ka-shing, unveiled a 42.1 per cent increase in consolidated net profits after tax amounting to HK$948.9m ($121m) for 1988. Page 30

SAMPO, Finnish insurance company which has been a target of speculation recently, plans to increase its holding in Finanssilaitos, the holding company that bought 25 per cent of Sampo stock on Wednesday. Page 30

HENDERSON Land Development, major residential property group, announced a 126 per cent increase in net profits after taxation to HK$735.57m ($94.3). Page 30

Yeltsin supporters march in anger at rally cancellation

By Quentin Peel in Moscow

THOUSANDS of supporters of *Mr Boris Yeltsin, the Soviet Communist Party rebel,* marched through the streets of Moscow yesterday in angry but dignified protest at the cancellation of an election rally by the city council.

The spontaneous demonstration of popular support for the disgraced former candidate member of the Politburo, and head of the Moscow City Communist Party, came just three days after the party leadership announced an inquiry into his election statements, which included a call for a referendum on a multi-party system.

It also coincided with the first ever publication of voting figures from inside the ruling Central Committee, showing that Mr Yegor Ligachev, Mr Yeltsin's arch-rival in the leadership, attracted more opposition from his peers than any other member of the Politburo.

The details of the voting for 100 Communist Party deputies in the future super-parliament – the Congress of Deputies – showed that 12 members even dared to vote against Mr Mikhail Gorbachev.

None of the 100 candidates put forward by the party leadership failed to win the required 50 per cent support of last week's plenum. However, Mr Ligachev, branded by Mr Yeltsin as the arch-conservative in the Politburo, attracted 78 "No" votes: more than any other candidate.

The result, published in all the national newspapers yesterday, was still no great reassurance to reformers. The second largest number of "No" votes (59) was won by Mr Alexander Yakovlev, the man who is seen as the most reformist of all, while Mr Viktor Chebrikov, the conservative former head of the KGB, got only one vote less than the Soviet leader: 628 in favour and 12 against.

Another indicator was that the least unpopular figure in the Politburo was Mr Nikolai Ryzhkov, the Prime Minister, who has recently taken an increasingly high public profile and appears an acceptable alternative both for reformers and conservatives alike.

The fact that such voting figures can still cause amazement in the Soviet Union is an indication of how little the system has yet opened up to public criticism of the leadership.

The same interpretation can be given to the Central Committee's decision to set up an inquiry into Mr Yeltsin's statements, more in anger at a gamekeeper turned poacher, than because they have been more radical than others.

The former Moscow party chief has only said that a multi-party system should be discussed – whereas one or two other party candidates have actually spoken in favour of such an innovation.

Perhaps more to the point has been Mr Yeltsin's repeated attacks on the Moscow party leadership, headed now by Mr Lev Zaikov, one of the most senior Politburo members.

Yesterday's demonstration is the latest indication of a strong

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Pro-Yeltsin supporters protest in Moscow yesterday

Georgians stage a show of political resilience

By James Blitz in Tbilisi, Georgia

THEY say that a week is a long time in British politics. But in the Soviet Republic of Georgia, they play out the whole gamut of politics in the middle of town on a Saturday morning.

The backdrop to a series of spectacular scenes on Saturday was, appropriately enough, the impressive golden facade of the Tbilisi Opera House. Between 10 o'clock in the morning and lunchtime, the entire drama of Georgian nationalism was acted out between 2,000 demonstrators, 800 members of the Georgian political establishment and a great many police.

Early in the day, some 300 students and workers had begun to congregate at the front door of the Opera building in Tbilisi's main street. They were all members of the "informal political groups" which are tolerated but also criticised by the Georgian Communist Party.

The political goal of the informal groups is clear: greater economic and political independence for the Republic of Georgia from the rest of the Soviet Union.

Walking into the Opera House, escorted by Georgian militiamen, were the 800 extremely well-heeled delegates to the annual conference of the Rustaveli Society, a cultural organisation with 110,000 members.

It was set up by the Republic's Communist leadership, specifically to counter the informal groups. Its delicate task is to give expression to the growing sense of patriotism among the Republic's 5m people, but to keep the clamour under party control. It is the largest public organisation in Georgia.

It was shortly after the Rustaveli conference was formally declared open inside the opera house that trouble began outside.

The red, white and black flag of independent Georgia was hoisted to cheers and half a dozen demonstrators mounted a platform. Placards calling for independence were up, right in the middle of the capital, and a student began addressing the 300-strong gathering.

He had been speaking for two minutes when 20 militiamen, followed by the diminutive Mr Varlam Shaiid, the local police chief, moved into the large crowd of men and

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Role of IMF funds for debt relief queried

By Stephen Fidler in Amsterdam

THE CHAIRMAN of the key policy-making committee of the International Monetary Fund yesterday spoke out against the use of IMF and World Bank resources to provide guarantees to encourage the reduction of debt burdens of debtor countries.

IMF and World Bank support for packages which reduce Third World debt is a critical element of new US proposals outlined earlier this month by Mr Nicholas Brady, US Treasury Secretary.

Mr Onno Ruding, the Dutch Finance Minister who chairs the Fund's interim committee, said yesterday he wanted "to put a special question mark at the provision of guarantees by the IMF and World Bank."

He said such guarantees would hamper progress in re-establishing creditworthiness to debtor countries.

"If greater involvement of the IMF or World Bank would lead to an indirect bailing-out of commercial banks, we would enter dangerous ground," he told a conference organised to coincide with the start Inter-American Development Bank annual meeting which begins in Amsterdam today.

This would, he said, run counter to the Interim Committee's policy agreed at its last meeting in West Berlin last year which stated there should be no transfer of risk of private lenders to official creditors.

However, the proposals drew applause from the two Group of Seven industrialised nations represented at the conference, Japan and France. Mr Toyoo Gyohten, Japan's Vice Minister of Finance for International Affairs, remarked, however, on "an inherent incompatibility between debt cancellation and new credit" which had to be resolved.

Mr Jean-Claude Trichet, director of the French Treasury and chairman of the Paris Club of creditor nations, said under the current debt strategy, a transfer of risk was taking place in any case as the official creditors took an increasing share of new loans. "Therefore the problem is not whether there is a transfer of risk, but how do you get the best out of it."

Both officials said they believed that the concept of debt principal reduction should not be extended to official debts to the creditor nations represented in the Paris Club.

In a separate development, in negotiations before the IADB meeting, new US proposals introduced over the weekend threaten to hold up an expected agreement on a capital replenishment for the Bank.

The new US proposals would preclude the Bank – established 30 years ago to channel development funds to Latin America – from making certain types of loans unless an IMF and World Bank economic programme was in place.

The proposal would affect so-called sector development loans, designed to improve performance in one part of the economy, which are likely to account for up to 25 per cent of total lending.

The Latin American shareholders of the Bank object to the proposals, which do, however, appear consistent with a US desire to keep the IMF and World Bank in the driving seat in resolving the debt issue.

Peter Riddell, US Editor, adds: Mr Michel Camdessus, the managing director of the IMF, will outline his organisation's official attitude to the Brady Plan in a speech to the IADB conference today following discussions last week in Washington by the Fund's board of executive directors.

Some of the executive directors, particularly from Western Europe, apparently expressed reservations about some of the risks involved and details of the plan. However, the general view of the executive board was positive. The Fund has so far publicly backed the plan as a basis for further work and hopes that substantial progress can be made in two weeks time at the meeting of its policy-making interim committee.

However, monetary officials believe that the US and other leading Western governments need to take urgent action to ensure rapid implementation, particularly to put the first debt reduction agreement, probably with Mexico, in place by the summer. There is also concern that the main Western governments should consider changes in their tax policies and regulatory procedures to encourage banks to participate in such debt reduction agreements.

There are expected to be strong calls at the Washington meeting for a sizeable increase in IMF quotas, or resources, if the Fund is to play its full part in debt reduction. An increase of at least 50 per cent is required merely to stand still and maintain the Fund's resources

Gulf producers consider underpinning crude prices

By Steven Butler in London

SAUDI ARABIA and Kuwait are considering steps to underpin the price of Middle Eastern crude oils following concern among Gulf exporters over the failure of their prices to keep pace with those of North Sea and North American producers.

April futures contracts for West Texas Intermediate, the US benchmark crude, broke through $20 a barrel for the first time since October 1987 on Friday. However, Dubai crude, the benchmark Middle Eastern crude, was $4 a barrel cheaper, roughly double the usual price differential.

Although the differentials between the various crude oils widen or narrow in response to short-term market distortions, the unusually wide differential has persisted for many months, and amounts potentially to billions of dollars in lost revenues for Gulf producers.

Kuwait is understood to have discussed with Saudi Arabia a proposal that would set a floor on the differential between Dubai crude and the North Sea's benchmark Brent crude of about $1.80, compared with a current differential of about $3. The floor would be used to price other Middle Eastern crudes when Dubai slips far below Brent prices.

Although new price formulae for April sales of Middle Eastern crudes were not introduced earlier this month, as some traders expected, the proposals are understood to be still under discussion.

Suspicion has grown that because of the relatively low volume of trading in Dubai crude, prices may be subject to manipulation. In particular, it has been suggested that Japanese buyers have intentionally reduced purchases of Dubai in order to weaken the price of alternative crudes.

However, traders and analysts in the market say that the relatively high prices for North Sea and North American crudes reflect other factors. For example, equipment failures in the North Sea have led to a fall in the sector's output of over 400,000 b/d from peak production levels last year.

North Sea crudes are light, requiring less refining to produce products such as petrol and diesel fuel. They are also "sweet", meaning they contain little sulphur. Because of the shortage of oil of this quality, the price of similar crudes has risen faster than others. Middle Eastern oil tends to be heavier and "sour."

Many observers believe, however, that the premium for light, sweet crudes may have become a permanent feature of the market.

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Apple wins first court battle

By Louise Kehoe in San Francisco

APPLE COMPUTER of the US has won the first round of a key legal battle with Microsoft and Hewlett-Packard to protect its distinctive Macintosh personal computer software.

Apple has charged that programs developed by Microsoft and Hewlett-Packard to give IBM-compatible personal computers many of the attributes of the Apple Macintosh violate its copyrights.

A Federal judge ruled on Friday that a 1985 licensing agreement between Apple and Microsoft in which Apple gave Microsoft the right to use certain aspects of its *Macintosh* technology applied only to the first version of Microsoft's *"Windows" program.*

The ruling defeated Microsoft's first line of defence against Apple's claim that Microsoft's Windows violates its copyrights.

Barring an out-of-court *settlement, the judge will go on to* consider aspects of the case that could have far-reaching implications for the entire personal computer industry.

He must decide not only upon Apple's claims that the "look and feel" of the *Macintosh displays* are protected by copyright, but also Hewlett-Packard's counterclaim that Apple's Macintosh displays are not original and that its copyrights are thus invalid.

Both Microsoft and Apple *have huge investments riding* on the outcome of the case.

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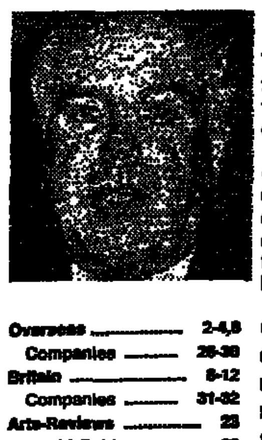
THE MONDAY INTERVIEW



Mr Edmund Fitzgerald, president of Northern Telecom, Canada's foremost multi-national manufacturing concern, believes innovation and cost-effectiveness will continue to be the cornerstones of the company's success in the future
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Women in protest at division of Cyprus

ABOUT 3,000 Greek-Cypriot women stormed past troops into north Cyprus yesterday, to protest at the division of the island. Some were dragged into Turkish-Cypriot custody, Reuter reports from Lymbia, Cyprus.

The women, accompanied by supporters from the US, Europe and Australia, breached the Green Line dividing the island at two places and remained in the north for several hours before returning to the south. Witnesses and a UN spokesman reported that more than 50 women were arrested at the two sites.

About 2,000 women crowded across the UN buffer zone at Lymbia after evading helicopter-borne UN peacekeepers.

The handful of unarmed Turkish-Cypriot soldiers who met the women were powerless to halt them, but reinforcements quickly arrived and arrested several of the protestors. The UN spokesman said 33 women were arrested at Lymbia.

The Turkish-Cypriot leader, Mr Rauf Denktash, whose breakaway Turkish Republic of North Cyprus is recognised only by Ankara, had vowed that anyone crossing the UN buffer zone would be arrested.

Another 22 people who crossed the Green Line further east at Akhna were arrested, witnesses said. A total of 1,000 women had crossed to the village.

A UN spokesman said Turkish-Cypriot authorities had agreed to return the arrested protestors.

Scores of Turkish-Cypriot women rushed to Lymbia and Akhna to stage counter-demonstrations. Policewomen intervened to stop scuffles.

The women, organised by a committee called Women Walk Home, ended both protests after about three hours.

Many were among 200,000 Greek Cypriots who left their homes in the north after the invasion.

Little progress has been reported at UN-sponsored talks which began last year between Mr Denktash and the Cypriot President, Mr George Vassiliou, aimed at reuniting the island. The two last met on Friday.

Spectre of Fortress Europe haunts bankers

David Buchan and **William Dawkins** look at confusion caused by the debate on reciprocity provisions

NOTHING did more to foster the worry abroad that the 1992 programme was creating a "Fortress Europe" than the way Brussels let confusion about banking reciprocity fester for much of last year.

It is therefore hardly surprising that foreign bankers started biting their nails again last week, as the European Commission in Brussels and the European Parliament in Strasbourg appeared to take quite different tacks on reciprocity.

Sir Leon Brittan, the EC commissioner for financial services, promised to make "more flexible and less bureaucratic" the reciprocity provisions in the proposed Second Banking Directive, aimed at creating Community-wide banking privileges for any EC-based subsidiary – EC or foreign owned – which conforms to a minimum solvency requirement. But the Parliament promptly amended the directive, seemingly in the opposite direction.

To ease the mind of those foreign nail-biters a little, it should be pointed out that the Parliament is most unlikely to get all, or even most, of its way. The Strasbourg Euro-MPs could prevail only if the Commission were to side with its key amendments; the Council of 12 EC governments can only overturn by unanimity a united Commission-Parliament stance. But since the Commission does not share all of Parliament's views, such unanimity (difficult to achieve on so divisive an issue as reciprocity) need not be mustered.

The likely timetable is that, in the light of Parliament's amendments, Sir Leon will seek his Commission colleagues' formal approval early next month for changes to make reciprocity more flexible. EC finance ministers will discuss the reciprocity issue on April 18, leaving their officials two months to try to negotiate "a common position". With luck, ministers can bless this in June. The directive will then go back to Strasbourg for a second reading, or round of amendments. But the Council will have the final say, again by a weighted majority that gives two large states plus one small state a blocking minority. Thus, any tough reciprocity measure could be blocked by, say, the UK, Germany and Luxembourg – states which are philosophically opposed to using reciprocity as a major trade weapon.

However, "as a matter of pure politics we are not going to get the Second Banking Directive through without a reciprocity clause of some kind," stresses one Commission official. The "pure politics" in question are just not the protectionist sentiments of several southern EC member states, but a general feeling even among the more free-trade-minded governments that the Community needs an international bargaining lever in an area – financial services – which is not yet covered by General Agreement on Tariffs and Trade (Gatt) rules.

In fact, there is a good chance of Gatt agreement on financial services by the close of the Uruguay Round negotiations next year. Once that is achieved, the EC says it will try to "multilateralise" any reciprocity it has gained bilaterally, and any disputes arising out of the EC's use of reciprocity will be "Gattable" – that is, complaints can be taken to a disputes panel in Geneva.

For the time being though, the Commission needs reciprocity for three reasons, Sir Leon said last week. It must be able "periodically to make an assessment of whether EC credit institutions enjoy effective access to third country markets, particularly of our major trading partners." It must be able to propose negotiations "with third countries to obtain improved market access where Community banks as a whole are suffering material damage because of lack of reciprocity" to the Council. And, "as an instrument of last resort . . . the Commission must have the power to propose, and the member states to implement, measures to restrict the establishment of new banks coming from third countries, which are denying effective market access to our banks."

At the same time, however, Commission officials are planning changes to the directive. As currently drafted, it states that member states would have to suspend all authorisations of new third-country bank subsidiaries, or third-country acquisitions of EC-based bank subsidiaries, to give Brussels three months to determine whether or not the third country in question gives EC banks "reciprocal treatment".

"We want to move towards using the reciprocity test as a reserve, discretionary power," says one Commission official. "Perhaps we would wait until a member state tells us it has a problem (of foreign market access), or when we judge there is a problem. We do not want to apply the reciprocity test bank-by-bank."

The term of "reciprocal treatment", so vague that it has understandably fuelled foreign paranoia about EC intentions, would also be redefined as "national treatment" – the chance for EC banks to compete on the same terms as local banks in a given foreign market. "Sanctions would only be applied where a foreign country fell below this minimum of national treatment," says the official.

The main spanner which the Parliament threw into the works of the Second Banking Directive was a reciprocity amendment which covered "branches" of third country banks as well as the "subsidiaries" to which the directive currently limits itself. The Parliament's concern seemed to be that foreign banks might try to sidestep reciprocity requirements by setting up branches, rather than subsidiaries, in the EC. The Euro-MPs evidently saw a loophole in the draft of the directive – that, even if a branch in one EC state did not get the "single passport" to bank across the Community which the directive would give a subsidiary, it could still draw custom from the other 11 states by exploiting the planned lifting of exchange controls after mid-1990.

Commission officials acknowledge this possibility, but say they have not the slightest intention of doing anything about it. Foreign bank branches, they stress, must remain under the twin control of the national authorities in their host EC state and in the home country of their foreign parent.

Moreover, Commission officials point out that the Parliament amendment really has less to do with strict reciprocity (that is, market access) than with the extraterritorial application of EC prudential requirements. They say Strasbourg's concerns about bank solvency cannot be applied to branches, because they do not have balance sheets separate from their parent banks, but would have to be applied to the parent institutions themselves in third countries – a recipe for endless dispute.

"Try applying that to the Moscow Narodny's Frankfurt branch," scoffs one Commission official. Mr Shin Kawaguchi of Sumitomo Bank in London echoes the view that EC supervision of foreign bank branches in the Community would be "unworkable". (Accompanying the Second Banking Directive is a proposed solvency directive, applicable to subsidiaries that by definition do have their own balance sheets).

But the Commission is disposed to follow the Parliament in closing a loophole concerning the parentage of subsidiaries. As currently drafted, the directive could allow bank subsidiaries in the EC, whose immediate parent is an EC company but whose ultimate parent is a foreign-owned holding company, to escape the reciprocity test. Brussels officials say they now agree "the ultimate parent" should determine the nationality of the EC-based subsidiary.

Yet this could raise problems under Community law, suggests Sarah Ludford of American Express, the diversified US financial services company. "Take the case of a European holding company already established in the Community which seeks a Community banking licence for a subsidiary," she says. "Such a holding company would be treated differently from its wholly EC-owned counterparts. How would that be compatible with Article 58 of the Treaty of Rome which promises equality of treatment to all EC-incorporated institutions?"

The manner in which reciprocity finally appears in the Second Banking Directive will, rightly, be taken as a precedent for other forthcoming EC financial measures, such as the proposed directive liberalising investment services. It will also indicate whether "Fortress Europe" is a ghost that can be laid to rest, or a real spectre.

Basques turn out in force for peace rally

By Tom Burns in Madrid

MODERATE Basque opinion turned out in force at the weekend for an unprecedented peace rally that called on the separatist organisation Eta to prolong indefinitely its 10-week ceasefire.

About 200,000 were estimated to have taken part in a march through central Bilbao on Saturday that had been organised by the moderate nationalists of the regional Basque government and was backed by all Basque political parties, except the radical coalition Herri Batasuna (Popular Unity), which supports the Eta gunmen.

The rally came at a crucial moment in a process of secret preliminary contacts being conducted in Algiers between representatives of Eta and of the Madrid Government. On January 23 ETA said it would maintain a ceasefire, initiated two weeks earlier, until Easter Sunday in exchange for meetings with government officials.

The turnout followed preparation by the regional government that included the direct mailing of 600,000 invitations to attend the rally, and the organisation of scores of buses and special trains.

Given an overall Basque population of just over 2m, about 300,000 of whom live in Bilbao, the size of the demonstration prompted its organisers to judge it an unqualified success.

Markka likely to rise by 4%

By Olli Virtanen in Helsinki

FINLAND'S markka is expected to rise by about four per cent in foreign exchange markets today following the central bank's decision to adjust the trade-weighted band of values within which it seeks to keep the currency.

The Bank of Finland's action on Friday, along with an increase in turnover tax and social security payments announced by the Finance Ministry, were the latest moves to cool the overheating economy.

Before revaluation, the markka had been trading at highest permitted level within the old band, reflecting the Bank of Finland's policy of high interest rates

The revaluation is likely to increase imports and the Government sought to avert a likely rise in consumption by increasing turnover tax by a half percentage point for five months from June. Employers' health insurance payments will also go up by a quarter percentage point for seven months from May.

Mr Rolf Kullberg, Governor of the Bank of Finland, says the trade balance, which is the only surplus item on the current account, will probably deteriorate as a result. But, he points out, a revaluation is a "temporary measure".

The forest products industry, Finland's leading export earner, will lose an estimated FM1bn (£134m) annually. The fiscal measures are expected to take about FM1.2-1.5bn out of the economy.

Italy orders air crash inquiry

By John Wyles in Rome

THE Italian air force has been ordered to set up an internal inquiry, following presentation of the first authoritative report to confirm years of speculation that a missile was responsible for the loss of the Itavia DC9 which went into the sea north of Sicily in June 1980.

"The accident to the DC9 was caused by a missile explosion near the front part of the airplane," was the conclusion of a team of experts who nearly five years ago were given the task of explaining the disaster.

Since few air disasters have been investigated to so little effect as the so-called Ustica tragedy, in which 81 lives were lost, an authoritative conclusion may help break through the wall of evasion, missing evidence and political irresolution surrounding it.

Both scientific evidence and the recording of the flight crews' conversation supported the missile explanation, says the report. The final word spoken in the cockpit before the external explosion was "guar . . ." which suggests one of the crew was about to say "guardi" or "look" to his colleague. Two seconds later there was what "seems to have been an explosion outside the aircraft".

Whether one of the crew had seen a missile or a fighter aircraft cannot be known. The report says radar evidence shows a smaller fighter-type aircraft flew close to the DC9 just before it disappeared from the radar screen.

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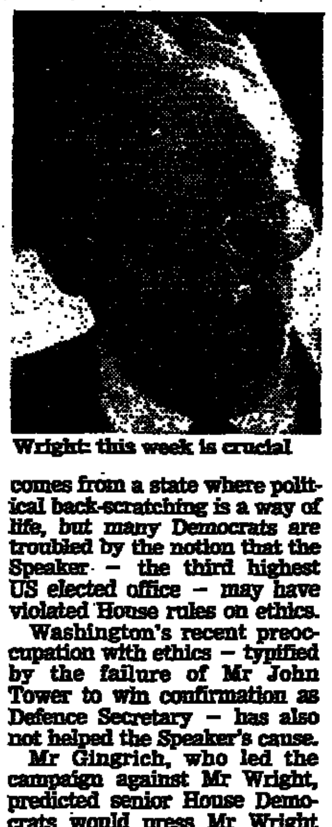
Wright 'will be forced to resign as Speaker'

By Lionel Barber in Washington



Wright: this week is crucial

MR Jim Wright, Speaker of the US House of Representatives, faces a test of political survival this week when the House ethics committee is expected to vote on a nine-month investigation into his financial dealings.

A leading Republican opponent, Congressman Newt Gingrich of Georgia, predicted yesterday that the committee's report would be so damaging that the Speaker would be forced from office by June.

Mr Wright's fate, however, lies with his fellow Democrats, most of whom seem reluctant at this stage to take the unprecedented step of removing a Speaker at mid-term in his office. Much will depend on whether the ethics committee decides there is sufficient evidence to warrant formal charges against the Speaker, or chooses to confine itself to a reprimand.

Mr Wright faces charges that he used improper influence with bank regulators on behalf of three Texas executives of properties and troubled savings and loan institutions. His relationship with a Texas developer, Mr George Mallick, is also under investigation, as is as a book deal in which he received inordinately high royalties of 55 per cent.

Mr Wright, who is a Texan, comes from a state where political back-scratching is a way of life, but many Democrats are troubled by the notion that the Speaker – the third highest US elected office – may have violated House rules on ethics.

Washington's recent preoccupation with ethics – typified by the failure of Mr John Tower to win confirmation as Defence Secretary – has also not helped the Speaker's cause.

Mr Gingrich, who led the campaign against Mr Wright, predicted senior House Democrats would press Mr Wright either to step down or to relinquish some of his power.

Hard questions about who pays for the Brady plan

Stephen Fidler at a European seminar listens to reactions to the latest US proposals on debt

"Everybody says it's a great idea, as long as the other guy pays for it."

This was how one American banker summed up reaction to the US proposals on developing-country debt at a high-level seminar in Amsterdam yesterday.

Organised by NMB Bank to coincide with the annual meeting here of the Inter-American Development Bank, the conference brought together some of the main protagonists in the debt issue in a public forum, for the first time since Mr Nicholas Brady, US Treasury Secretary, announced the new US proposals.

Mr David Mulford, the US Treasury official widely considered the main architect of the proposals, insisted they were not a blueprint. He provided some slight refinements on Mr Brady's speech, which envisaged "support" from the international financial institutions for voluntary debt reduction by banks. This could include, he said yesterday, IMF and World Bank "support for interest payments on a rolling basis for a limited period".

In some quarters, the Brady proposals are being criticised because it appears as if the Administration is saying nobody will pay.

"One of the great benefits of these present ideas is that, in and of themselves, they do not involve additional resources as being necessary for the international institutions at this time," Mr Mulford told journalists. "They involve a shift in the direction and use of resources towards debt reduction."

There were few dissenters from the assessment of Mr Jean-Claude Trichet, Director of the French Treasury and chairman of the Paris Club of Western creditor nations, that the proposals marked "a turning point" in the debt crisis.

However, the first concrete sign that the Brady ideas could meet resistance came from Mr Onno Ruding, the Dutch Finance Minister and chairman of the interim committee of the IMF. "I want to put a special question mark at the provision of guarantees by the IMF or the World Bank," he said.

Indeed, while the US ideas were applauded from all sides of the debate, it was clear that in many quarters the hard questions are now being asked.

Mr Eugene Rotberg, a former treasurer of the World Bank and now an executive vice president with Merrill Lynch on Wall Street, articulated many of these issues.

Precisely who will take the risk, who puts up new money, and how much in resources will be available? Who takes losses and through what mechanisms, and how does this affect the cash flow of the debtors? What will be the accounting impact on the lending institutions and how are the beneficiaries chosen? Will it be first come, first served, or will those in worst shape be the first to benefit? Or those in best shape?

When these are known, other questions raised widely at the seminar will be asked. What kind of impact will the plan have on incentives in debtor countries?

Perhaps most central of all: is accelerated debt reduction incompatible with new loans from banks? The essential problem here is that unless debt reduction is huge it does not address the problem of the big resource flows from the debtor countries, amounting to $30bn from Latin America last year. Mr Toyoo Gyohten, Japan's vice-minister for international finance, agreed that the "incompatibility between debt cancellation and the new credit needs to be reconciled".

That would happen only when creditor banks were convinced that the quality of their new credits and the remainder of their old credits were enhanced compared with the cancelled portion of their old credits.

Mr Gyohten and Mr Trichet also attempted to reduce expectations that voluntary debt reduction by banks for middle-income countries might be followed by the same from the Paris Club.

According to Mr Trichet, the need for creditor governments to reduce debts was not proven, since official credit to middle-income countries made up a greater and greater share of the total and continued to be forthcoming, while commercial bank lending had dried up.

Others, including Mr Rotberg, were concerned that too great a role for the World Bank in the process might damage the institution's standing in the eyes of creditors.

There was also a conflict of views on the question of flight capital. Mr Horst Schulmann of the Institute of International Finance, the Washington-based group that speaks for the banks, insisted that repatriating flight capital was essential to resolving the debt crisis. Mr Jesus Silva Herzog, the former Mexican Finance Minister, said he believed that only when the debt issue was solved would flight capital come home.

But only Mr Jose Luis Machinea, the president of the central bank of Argentina, questioned the voluntary basis for debt reduction. He asked whether in a voluntary framework, banks would waive the sharing and negative pledge clauses of loan agreements that stand in the way of debt reduction. "If the approach continues to be based on small operations, the net transfers won't cease and the debtor problem will remain largely unsolved."

There also remains a worry that the US promise of a review of the debt strategy, and the subsequent Brady proposals, may have raised hopes which cannot be fulfilled, especially in the short term, given the issues still to be resolved. As Mr Mulford said of the ideas: "They are not in place and not, strictly speaking, usable at this moment."

Jose Luis Machinea: questioned voluntary basis

Toyoo Gyohten: incompatibility needs to be reconciled

Onno Ruding: first signs of resistance

Chile unveils fruit industry rescue plan

By Barbara Durr in Santiago

THE CHILEAN Government has announced a fruit industry rescue plan worth 7bn pesos ($28m) to tackle problems which arose when the US banned sale of the fruit for four days.

The ban was put into effect last Monday when US officials found two cyanide-tainted grapes and after the US embassy in Santiago had received anonymous phone calls saying fruit exports would be poisoned. The US move was quickly followed by Canada and Japan, and Chile's fruit was caught in an exports bottleneck in refrigeration facilities. However, the US ban was lifted for grapes last Friday and a decision on other fruits was due today.

The money will come from Chile's $2bn (£1.2bn) in foreign exchange reserves and as a result the country will have to negotiate new targets for its International Monetary Fund programme and a loan from the World Bank.

Mr Jorge Selume, Chile's budget director, said the plan would provide $12m for special jobs programmes in affected fruit growing areas, $2m for an advertising campaign to help re-establish international consumer confidence and $14m to buy up to 1m crates of fruit.

Chile's real losses, and consequently the amount of the World Bank loan, have not yet been fully calculated, according to Mr Selume. Fruit exporters say their immediate losses are one thing, but the future is quite another. They are worried that permanent damage has been done to their international markets.

Independently of the Government, Chilean commercial banks have meanwhile arrived at an accord with fruit exporters to postpone payment of the exporters' loans until June 30. No direct intervention by the central bank is contemplated, at least for now, according to Mr Guillermo Ramirez, the superintendent of banks.

Fruit exports have resumed under heavy security. The first six boats left on Saturday bound for Europe. Shipments of grapes to the US are due to restart tomorrow.

Albertans likely to boost Getty mandate

By David Owen in Toronto

ALBERTANS go to the polls today in a provincial election that is widely expected to extend Premier Don Getty's majority mandate for a further five years.

The western Canadian province has returned a majority Conservative government in each of the past five elections. Most recently, in May 1986, the Tories won 61 of the 83 seats at stake, against 16 for the provincial New Democrats, four for the Liberals and two for the now defunct right-of-centre Representative Party.

Mr Getty opted to call an early election partly to forestall any prospect of a Liberal revival under Mr Laurence Decore, the party's well-known but recently-installed leader.

Another incentive was to get the election out of the way before the final judicial ruling on the collapse of the Principal Group, a regional financial institution.

The ruling is expected to be critical of the Government's role in the affair.

But more positive factors also played a part in the premier's decision. These include the resurgent regional economy, the favourable reaction to a recently-agreed land claims settlement with Alberta's Lubicon indians, and the apparently changeless nature of the bedrock Tory rural vote.

If few expect Mr Getty – a former football player and keen golfer – to be beaten, serious question marks hang over the size of his victory and the identity of the official opposition.

In the last week of the month-long campaign, Mr Getty's fears of a Liberal groundswell have been partially realised. The party has made hay with the issue of fiscal responsibility, attacking an extraordinary list of Tory spending pledges and cashing in on Mr Decore's reputation for fiscal rectitude during his stint as mayor of Edmonton.

Meanwhile, the New Democrats under Mr Ray Martin have been quietly attempting to build on their own strength in the Edmonton region. In 1986, the left-of-centre party won 12 out of 17 seats in the provincial capital.

One recent opinion poll put the Liberals within a point of their New Democratic rivals, with the support of 18 per cent of decided voters.

However, both opposition parties remained far in arrears of the ruling Conservatives. Tory support was pegged at a daunting 63 per cent.

Ontario-born Mr Getty has based his campaign on a simple two-planked platform: the spending pledges so deplored by the Liberals, and criticism of the policies being implemented in Ottawa by his ally, Prime Minister Brian Mulroney.

On the first count, Mr Getty has promised in excess of C$2bn (£976m) to a checklist of worthy causes including senior citizens and victims of domestic violence. The most criticised initiative has been a pledge of at least C$1bn over 10 years to pave all the province's secondary roads.

On the second, the premier has focused his attacks on the issues of senate and tax reform, and the uncompromising anti-inflationary stance adopted by the Bank of Canada. To reinforce his attacks, he has promised C$400m to protect home buyers and small businesses from rising interest rates.

All in all, staunch Tory support in the countryside, where Mr Getty's relaxed, irredeemably parochial air is warmly appreciated, will probably be enough to carry him to victory – despite Mr Decore's shrewdly directed barbs.

However, unless otherwise vulnerable Conservative candidates benefit inordinately from the split opposition vote, Mr Getty could find himself presiding over a somewhat diminished caucus.

OVERSEAS NEWS

Conference puts Shamir to test

By Eric Silver in Jerusalem

AN international Jewish solidarity conference, called by Mr Yitzhak Shamir, the Israeli Prime Minister, is turning into a gauge rather than an affirmation of support for his Government's policies.

Officials said yesterday 1,100 Jews from 50 countries were expected to attend the three-day conference, opening in Jerusalem today. The organisers have scrupulously given equal time to senior ministers from the Likud and Labour halves of the national-unity coalition and allowed their guests an opportunity to reply.

Mr Shamir will, however, have to convince them that he is not seeking a blanket public relations endorsement of his refusal to negotiate with the Palestine Liberation Organisation or to exchange territory for peace.

Many of those invited have chosen to stay away rather than risk being exploited to shore up policies they do not like. The Jerusalem Post said only about 50 of 130 invited from Britain agreed to attend.

American Jewish leaders are expected to use the conference to urge the Prime Minister to produce fresh ideas for advancing the Middle East peace process ahead of talks with the US on April 6.

An opinion poll published last week showed a decline in support for Israel among American Jews since the start of the Palestinian uprising in the occupied West Bank and Gaza Strip 15 months ago. According to the poll, conducted for the American Jewish Committee, 54 per cent disapproved of the way Israel was trying to put down the *intifada*.

Thirty-eight per cent favoured territorial compromise for peace while 30 per cent were against, and 47 per cent endorsed the right of the Palestinians to a homeland "as long as it does not threaten Israel", with 23 per cent opposed.

The American Jews polled 69-14 per cent against Israeli negotiations with the PLO, but approved the US dialogue with the Palestinian organisation by 38-28 per cent. Younger Jews identified with Israel significantly less than their elders.

Israeli and six Arabs die in clashes

SIX Arab rioters and an Israeli soldier were killed in a weekend of escalating violence in Israel and the occupied Gaza Strip, writes Eric Silver. At least 40 Palestinians and four Israelis were wounded.

In the most serious clash yesterday, a 26-year-old Arab stabbed three border policemen chasing a suspect in the Tufah district of Gaza city. The assailant, Talal al-Araaj, was shot dead on the spot. The three paramilitary policemen were treated in an Ashkelon hospital, where two were said to have suffered medium wounds and one light wounds.

In the West Bank village of Silat al-Khartiya, troops shot dead two Arabs aged 12 and 18 and wounded two others, security sources said.

Yesterday's incidents followed a big confrontation on Saturday in Sheikh Radwan, another district of Gaza city. Troops shot dead three rioters and wounded 37 others when youths stoned soldiers pasting up warning wall posters showing a petrol bomb and its consequence, an army bulldozer demolishing a house.

A 24-year-old reserve sergeant, Oren Lior, killed in an ambush on the Jordanian border on Friday night, was buried yesterday. His two attackers, members of the Syrian-backed rebel Fatah group led by Abu Mussa, escaped back across the lightly-fenced Jordanian border, where they were detained by King Hussein's army.

This rare raid from Jordanian territory was evidently designed to discredit the PLO leader, Mr Yassir Arafat, who is seeking a negotiated settlement with Israel and says he has renounced terrorism.

Egypt money markets in turmoil

By Tony Walker in Cairo

MONEY changers in the Egyptian port city of Port Said suspended trading at the weekend, apparently under official pressure, because of wild fluctuations in the value of the Egyptian pound.

The unofficial market rate for the local currency slipped by 5 to 10 per cent, to about E£2.60 to the US dollar, last week, a gap of some 16 per cent with the official rate.

In the past year or so, the Government has appeared to accept a 5-6 per cent premium in the unofficial market – the "grey" market is mainly used by private traders to raise funds to open letters of credit – but has cracked down hard when the gap widened.

Egyptian and foreign bankers said a number of factors appeared to have contributed to the unsettled state of the Egyptian unofficial market, including foreign exchange shortages, rumours of difficulties at several banks, and news that the US is withholding $230m (£135m) in cash because of Egypt's failure to implement suggested economic reforms.

A squeeze on credit available for debt-burdened Egypt, which owes its foreign creditors $44bn, is another factor in the country's foreign exchange crisis.

TWO JOURNALISTS SHOT DEAD AT CHECKPOINTS

Violent start to El Salvador poll

By Tim Coone in San Salvador

POLLING in yesterday's presidential elections in El Salvador got off to a violent start, with a battle in the suburbs of the capital, San Salvador, and the death of two journalists.

As polling stations opened in the suburb of San Ramon, 10 minutes from the centre of the capital, helicopter gunships attacked a left-wing FMLN guerrilla unit with rockets and machine guns for over two hours.

Cartridges showered over the tin roofs of the houses, while the explosions of the rockets and artillery echoed across the city. One government soldier lay dead shot through the chest. Another was saved from death when a clip of cartridges in his tunic pocket stopped a bullet.

Meanwhile, a photographer for the Reuters news agency was shot dead at an army checkpoint in the capital early in the morning, reportedly for failing to stop his vehicle, and a member of a local television crew was shot dead in a similar incident in the provincial city of San Miguel.

A transport stoppage organised by the FMLN guerrillas, who are boycotting the elections, was making polling slow yesterday morning. Nonetheless, a steady trickle of people was arriving at the six voting centres in the capital.

President Duarte: broadcast backfired

In the east of the country, guerrilla attacks in the towns of Berlin and Chilameca delayed the opening of polling stations, while in remoter parts of the country, no polling was taking place at all, because the Government could not guarantee the security of polling stations. The FMLN however has said it will not directly attack any of the polling stations.

Despite the official closure of the electoral campaigns last Thursday, radios and newspapers broadcast attacks on the left-wing Convergencia Democratica (CD) until less than 24 hours before polling.

Dr Guillermo Ungo, the presidential candidate for the CD, said the Air Force was violating electoral laws by dropping propaganda leaflets over the capital on Saturday, portraying his electoral coalition as a front for the guerrillas. He is the first presidential candidate of the left in El Salvador since the beginning of the decade.

At the polling stations, few CD party representatives were present, apparently for fear of identifying themselves and of possible reprisals later should the far-right Arena Party win, as it is widely tipped to do.

Mr Alfredo Cristiani, the Arena presidential candidate, made conciliatory noises on Friday, saying his party in government would be prepared to continue negotiations with the FMLN. He made no new proposals, however.

Another controversy was stirred on the eve of the polls when the Government used the emergency broadcasting system linking all television and radio stations on Friday night to broadcast an attack on Arena. The manoeuvre backfired when Arena obliged the Government, controlled by President Napoleon Duarte's centrist Christian Democrats, to give it the same air time on the emergency system to make a counter-attack on Saturday night before the polls.

Meanwhile, a failure of the electricity supply and a breakdown of the public transport system have demonstrated the weakness of the Government and its limited ability to control the country and economy, in the face of the guerrillas' ability to sow disruption. The frequency of electricity blackouts, and the time taken to renew supplies, has become a rule-of-thumb measure of the balance of forces.

Last week, the capital was without light and water for almost three days. TV and radio stations went off the air. Power was restored on Saturday but was interrupted half a dozen times. As polling began yesterday, power and water supplies in the capital were cut again. The fighting in San Ramon centred on a big storage tank supplying drinking water to the capital.

It was not an auspicious start to the polling day, and hardly the image of a model election. The worst is perhaps that of the 1.9m registered voters, only 1.4m were issued with voting cards in time, thus disenfranchising almost 25 per cent of the electorate.

The first tentative results were expected in last night, although given the disruption and the transport and communications difficulties, final election results may not be known until tomorrow. A second ballot may be required if the first does not produce a winner with an absolute majority.

Venezuelan reserves rise sharply to $7bn

By Joe Mann in Caracas

VENEZUELA'S international monetary reserves have risen to over $7bn recently, thanks to $650m in bridging credits received recently from the governments of the US and Spain, according to the president of the Central Bank, Mr Pedro Tinoco.

The new Government's liquid foreign exchange reserves, which had been nearly wiped out when it took office last month, now stand at more than $1bn, Mr Tinoco said. This sharp increase in liquid reserves was due mainly to deposits of $450m from the US Treasury and $200m from Spain, both provided to help Venezuela through a particularly tight cash squeeze.

The bank president said these credits had allowed Venezuela "to maintain normality in our [international] payments, covering payments for current imports and for letter of credit obligations".

The two loans are part of a larger financing package Venezuela hopes to obtain over the next few weeks, including $600m from commercial banks and $453m from the International Monetary Fund. It also seeks other credits from the IMF, World Bank and Inter-American Development Bank.

While Venezuela has over $7bn in foreign reserves, most of it in gold and securities, liquid reserves that can be used to pay for imports or to service debt have been a serious problem since the present government assumed power.

They were reduced to around $200m in early 1989 after the previous administration imported over $11bn in goods last year and paid out an estimated $4.7bn in foreign debt service.

The Government declared a moratorium on principal payments for most of its $33bn in public and private sector, foreign debt, and has told international banks it will pay interest on its debt as foreign currency becomes available.

UK trade mission finds attractions for investors

NOW that Venezuela has unified its foreign exchange rates, begun to reduce tariffs and established a series of other important economic measures, the country should be of "extreme interest" to many UK investors and exporters, according to Sir Jock Taylor, who headed a British trade mission that just completed a week of meetings with high-level Venezuelan officials and businessmen, writes Joe Mann.

Sir Jock, chief of a 17-member Latin American Trade Advisory Group (Latag) mission representing British industry and finance, added that key areas of interest in Venezuela for investors and exporters were mining, agro-industry, tourism and machine tools, especially for making equipment for Venezuela's large petroleum and natural gas sectors.

The Latag mission will advise the British Government on the trade and investment situation in Venezuela. Sir Jock, formerly the UK's ambassador to Caracas, said UK exports to Venezuela in 1988 were £177m, while imports, mostly petroleum, reached £100m.

ADVERTISEMENT

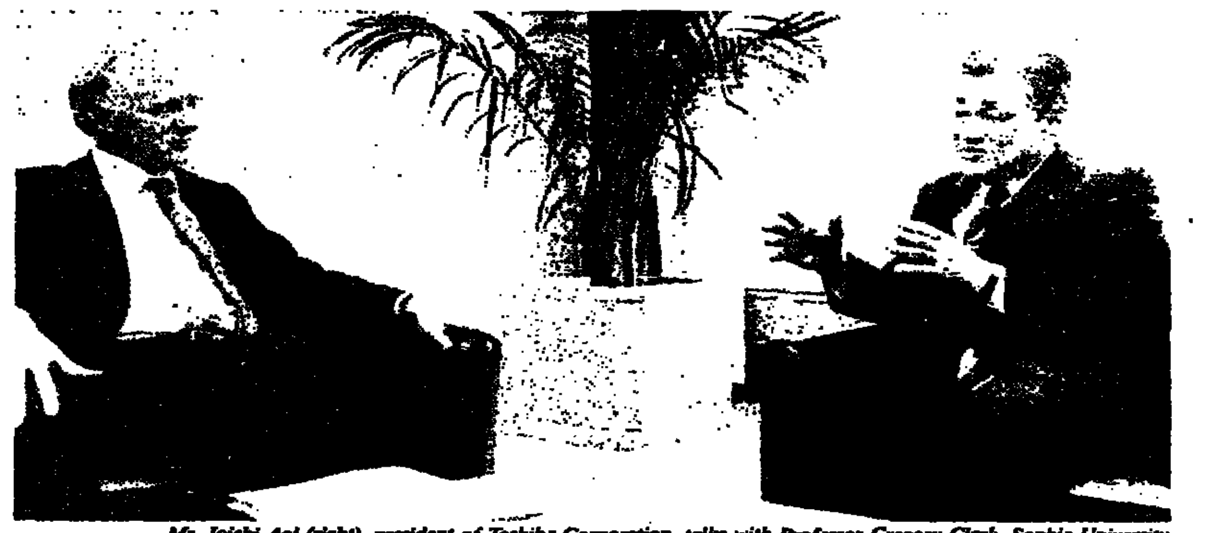
JAPAN:
ITS ECONOMY, SOCIETY AND FUTURE

At the Leading Edge of Technology

Two simple concepts, electronics and energy, form the core of Toshiba Corporation's ever-expanding activities. The Company's dominant business areas—information/communication systems, electronic devices, heavy electrical apparatus, consumer products and more—are all built around this core concept.

Concentration on electronics has been central to Toshiba's recent strategy, especially in the technologically challenging information/communication systems and semiconductor fields, where Toshiba ranks among the world's leaders.

Toshiba's extensive research and development program holds the key to the Company's continued success. In this interview, Toshiba's President Joichi Aoi puts the Toshiba Group's activities into perspective.



Mr. Joichi Aoi (right), president of Toshiba Corporation, talks with Professor Gregory Clark, Sophia University

Clark: Why do the Japanese people have such a strong sense of responsibility when it comes to maintaining quality control standards? What is it in the Japanese culture that creates this attitude?

Aoi: There are a number of things, but to explain it simply, I think it comes from people taking pride in their work. This is true not only in Japan but in Europe, for example, where the "Meister" apprenticeship system engendered the same way of thinking. Also, the employees have a clear sense of the role they play in the overall system. Simply assembling parts is not enough—the employee has to understand the significance of his job and its role in the total production system.

Clark: So there is a sense of responsibility to work well within the group. If one member does not do his work well, the other members will be adversely affected. But, where does this come from?

Aoi: I believe it comes from education. The Japanese work ethic is mainly rooted in Confucianism or Buddhism. In effect, the concept regards work as an expression of oneself. It is one of the expressions of our life that we inherit from our parents. I think this is one of the reasons why the Total Productivity Movement (TPM) that we started here at Toshiba has developed naturally. TPM is a companywide program to upgrade productivity by blending more sophisticated production technology and employee's dedication to productivity. It embraces all of Toshiba's operations giving the employees a market-oriented work ethic and allowing the Company to respond swiftly to changing needs and market conditions.

Clark: So work gives meaning to life?

Aoi: I suppose you could say that. But it is not static. There is a theory that the relationship between employees and employers is very different from what it was before World War II. In postwar Japan, the company was viewed as an entity to foster the welfare of its employees—a cooperative body to help people survive. This concept carried over to the next generation. It has not broken down, and although it may be a bit exaggerated, many people point to it as a characteristic of Japanese companies.

Before the war, if things at the company didn't work out, people could return home to their farms, till their own land, and feed themselves. When business picked up again, they could return to the cities. After the war, most people didn't have farms to go back to. This is perhaps one reason why the bond with the company grew stronger.

Another reason that the tight bond between the company and its employees has remained is the intense competition between companies in Japan. If a company doesn't remain competitive, it can't afford to give its employees the benefits they need.

This competitiveness, consequently, is a strong factor in making employees loyal to their companies. If the company as a whole doesn't try hard enough, it could easily lose out to the competition. Thus, this sense of loyalty dominates the overall mood and atmosphere of the company and keeps up the old tradition.

Global Operations

Toshiba's inherent strengths and the broad diversity of its international operations have allowed it to respond effectively to the rapid appreciation of the yen against the dollar and other currencies since 1985. Toshiba's long history of overseas production was originally centred in countries with relatively inexpensive labour. Rapid technological change and progress, however, have led the Company to locate its overseas operations increasingly in the countries and regions that are the major final markets for its products—the U.S. and Europe, for example.

The international scope of Toshiba's operations will continue to allow it to respond rapidly and effectively to changing market conditions and technological developments, brought about by rapid progress in microchips and other key areas.

At the Cutting Edge of Electronics

Toshiba enjoys a leading position in many electronics-related fields. The Company, however, is constantly moving forward in keeping with the pace of technological change to develop and implement new and exciting technologies. For example, Toshiba was the first company to begin mass marketing of one-megabit microchips and is rapidly moving ahead with delivery of four-megabit chips. This progressive approach will allow Toshiba to continue meeting the increasingly complex needs of its customers.

Also, recent breakthroughs in superconductivity are opening up vast potential for changes in the field of electronics and electrical energy. This will stimulate rapid development during the 1990s and beyond. Changes in technology require that we adapt quickly.

At Toshiba, we have traditionally held an excellent technology base in the heavy electrical engineering, power systems and consumer products fields. This served as the original base, which helped the Company diversify into other areas, such as information systems and electronics devices, as the needs of its customers in Japan and overseas changed.

Clark: Recently, however, there have been more changes within industry in general, and one company cannot do everything. This has given smaller companies more room to survive. This was not the case in the past, at least in Japan.

Another question is that of creativity. Many people point to the scarcity of Japanese Nobel Prize winners in pure science, while noting Japan's accomplishments in applications research.

Aoi: That is a very difficult question. Originally, Japan's industrial technology lagged behind that of the West. Japanese companies moved to catch up quickly, looking for fast results. This, perhaps, slowed the process of emphasising research in the basic sciences.

Japan faces a similar situation in education. Japan's educational system gives the same kind of emphasis, which many people point to as the reason why we receive so few Nobel Prizes. Recently, many people have realised the importance of training people to come up with new concepts, and emphasis is being placed on educational reform.

Renewed Commitment to R&D

At Toshiba, we have steadily increased our spending commitment to basic research. The recent breakthroughs in superconductivity have convinced us that this is the correct approach. Currently, the Company has 25 researchers engaged in basic research on high-temperature superconductors. They are focusing on basic research and not on commercial applications.

In June 1988, we also established a new technology to make a flat uniform layer of superconductive thin film to be applied in future electronic devices.

Also, Toshiba has developed a new method for resistless etching of very large-scale integrated circuits (VLSIs) using excimer lasers instead of conventional photoresist techniques. We hope that the excimer laser, a xenon chloride gas laser with a 308 nanometer wavelength, will be applied in a few more years, leading to higher yields of superhigh-density chips.

Clark: There is a need for this kind of activity and training. This mood hasn't caught on yet in Japanese society as a whole or even in the universities.

Aoi: That is most apparent in chemistry. Comparatively speaking, chemists are less numerous in Japan than in the West, and their role in Japanese industry has not been prominent. Japan's strength is still in applied science—making new and specific adaptations and uses for new base products developed elsewhere. This is a significant strength. If you were to ask some of the foreigners to do the same thing, they might find that it is not so easy. They will probably tell you to use it as it is. Japanese companies are characterised by their constant efforts to meet the needs of their customers. This approach needs to be adopted more extensively by companies around the world.

This commitment to meeting the needs of customers is the driving force behind our commitment to change. Saying that we lag behind in pure research and are strong at applied research is not criticism in itself. Achieving significant breakthroughs in pure research is inherently difficult. But to take a breakthrough and to realise its full market potential is an equally challenging task. The difference between pure and applied research is often a very thin line. In superconductivity, for example, the original breakthroughs were made overseas, but since then, many of the most significant breakthroughs have been made in Japan—some of them I am happy to say within Toshiba.

Advanced Research Facility Opened

You may not know, but in April 1988, Toshiba established its new Advanced Research Laboratory to conduct basic research, especially in the fields of superconductivity and bioelectronics. Success in these two fields will be pivotal to technological developments in the 21st century, and Toshiba is committed to effectively meeting the challenges posed by these exciting fields.

Clark: Recently, Japan has succeeded both in establishing a high standard of living and a high level of technology. It has caught up with the U.S. in a number of fields. Some people argue that if Japan tries hard enough it may also catch up with the U.S. in the fields of aerospace and space technology.

Aoi: Japan may continue to grow in these areas, but you have to take into account the needs of the market, which could prove to be a dominant factor. Some markets grow almost indefinitely, while in others this is not possible. It would be very difficult for Japan to develop industries, such as aerospace and space technology, along the same lines as those in the United States. It takes a tremendous amount of capital to develop a single jet engine. This is considered a major task, even for U.S. companies. Undertaking such a task would be very difficult for Japan to do alone. The limits on growth in these industries are also an important factor.

Japan will probably not be able to grow by itself in these advanced technological fields. Japanese companies will more likely work in cooperation with overseas partners.

Even with advanced microchips, it can be very difficult for one company to succeed alone. At Toshiba, for example, we have teamed up with Siemens and GE to develop standard cell libraries, new semicustom devices.

Clark: But, Japan is growing strong in space electronics.

Aoi: In electronics, yes, but in the space industry, Japanese companies face limitations because of the nation's stand on defense. We are working with the Japanese government in the satellite sector, for example, but this accounts for only a modest part of our total operations.

Localisation a Must

Clark: At any rate, increasing trade friction is having a major effect on the operations of almost every major Japanese company. How are you responding to this problem?

Aoi: As you know, expanding trade friction has convinced us that it is not enough just to manufacture in Japan for export. Rather, we need to manufacture in the markets where our products are consumed. At present, we manufacture in such countries as the United States, the United Kingdom, France, and the Federal Republic of Germany. Almost all of the people working in these facilities were hired locally and have been trained to make high quality products.

Clark: Such moves are, of course, welcomed, but the fact remains that these manufacturing industries remain more Japanese than local.

Aoi: Even if the capital is Japanese and the technology is Japanese, the employees are local. So, I don't think that such a big gap between the countries remains. In the case of IBM in Japan, for example, its operations here are just like those of other Japanese companies. By the same token, our operations in the U.S. are American, and our operations in Europe are European. Just because they are owned by Toshiba here in Japan does not mean that they are "Japanese." If they do not conform to the local culture and environment, then they will fail. Their success points to the correctness of this philosophy.

In Europe, for example, our subsidiary Toshiba Electronics Europe, based in the Federal Republic of Germany, establishes the strategy for our European-based electronic components operations. Success cannot be achieved in any other way.

Clark: There is a sense of impending crisis in the United States and the countries of Europe owing to the weakening of their industrial bases. What advice can you give to these countries?

Aoi: Rather than giving advice, I think Japan has to provide aid to help solve the problems. Right now, the strength of U.S. domestic demand is supporting the world economy. Many have criticised the United States, but if it were not for U.S. domestic demand the world industrial structure might already have collapsed. From now on, we must realise economic growth driven mainly by domestic demand, which requires a reform of our industrial structure based on a global perspective. Japan and other exporting nations, including the newly industrialising economies (NIEs) need to foster domestic demand as much as possible so that they will be able to import industrial goods in larger quantities. Rather than advising the United States or the countries of Europe on how to solve their problems, Japan needs to roll up its sleeves and help produce lasting solutions.

OVERSEAS NEWS

Afghans blame Pakistan for Jalalabad failure

By Christina Lamb, recently in Jalalabad

AFGHAN resistance commanders are beginning to blame Pakistan's military intelligence, the ISI, for a disastrous plan to take control of Jalalabad, Afghanistan's second most heavily fortified city, where the battle has reached stalemate with thousands of casualties.

An increasing number of Afghan guerrillas say the ISI pushed them into a battle they were not ready for and which, they say, may not be worth winning.

Mujahideen commanders generally shared the ISI assessment that President Najibullah's communist regime in Kabul would gain in credibility unless the resistance made progress soon after the Soviet troop withdrawal was completed on February 15.

After an interim government representing some of the Mujahideen groups was formed last month, the need to capture a city became more urgent to help vindicate resistance claims that they controlled 90 *per cent of Afghanistan.*

ISI regarded Jalalabad as the obvious choice, with communications from Pakistan enabling them to direct operations. But many commanders were reluctant to launch a major attack on Afghanistan's third most heavily populated city.

Others argued that Kabul was the only city that mattered and a siege should be tightened round the capital.

When ISI put its Jalalabad plans to the resistance groups on March 2 there was much resistance. One commander said: "Why should we who have never lost a war take advice from people who have never won one?"

But for the past year, ISI has often by-passed the resistance parties, setting up a network of some 400 commanders who agreed to carry out specific operations for ISI in return for arms.

The success of the initial attack from the south-east of the city was halted by bombing and artillery. Since then, the Mujahideen have been entrenched in a battle which has seen the war's highest two-week death toll.

As it became clear that the Mujahideen had been pushed back on some lines, leaders of three of the most extreme fun*damentalist resistance groups* decided at the weekend that Jalalabad must be taken whatever the cost.

The resistance claims to have 12,000 men in the Jalalabad area. Renewed and bitter battles are expected this week.

LDP wins election in Recruit scandal test

MR Takeshi Numata, backed by the ruling Liberal Democratic Party (LDP), won a third term as governor of Chiba, Tokyo's eastern neighbour, yesterday in one of two elections viewed as a test for the scandal-plagued party, AP reports from Tokyo.

In Miyagi prefecture in north-eastern Japan, the Socialist Party candidate, Mr Shuntaro Homma, easily won election as governor after the Liberal Democratic candidate, Mr Kazuo Aichi, withdrew.

Mr Aichi quit the race after admitting he had received more than Y7m (£31,000) from Recruit, the company at the centre of the political scandal.

The elections came as the popularity of Mr Noboru Takeshita, the Prime Minister, plunged to an all-time low because of the scandal, involving allegations of influence-peddling by Recruit, and criticisms of his party for its support of a new sales tax.

With 99.5 per cent of the ballots counted late yesterday in Chiba, Mr Numata, 66, had received 969,221 votes, while his opponent, Mr Shoji Ishii, supported by the Japan Communist Party, had received 783,280, officials said.

Opposition claims 'win' over Gandhi report

By K.K. Sharma in New Delhi

INDIA'S opposition parties are claiming a "major victory" with the decision by Mr Rajiv Gandhi, the Prime Minister, to publish a controversial and secret report by a commission into the circumstances around the *assassination of his* mother, the late Mrs Indira Gandhi, by her Sikh security guards in October, 1984.

The demand for placing the report before Parliament last week led to the biggest confrontation between the Government and the Opposition and culminated in the suspension of 63 members in the Lok Sabha (lower house).

The demand for making the report public followed the publication by *the Indian Express* of what it said was a part of the report implicating Mr R K Dhawan, Mrs Gandhi's main aide, in the assassination. Mr Dhawan was dropped by Mr Gandhi soon after he became Prime Minister in 1984 but was reappointed as a senior aide recently.

Mr Gandhi's surprise announcement that the report would be presented to Parliament on March 27 came after a week of turmoil in Parliament when the Government's spokesmen took what seemed to be a determined stand that the report would never be published. Powers to keep it secret were taken by the Government soon after the report was presented by Mr Justice Thakkar three years ago.

Mr Gandhi's change of mind on making the report public has been taken because, he said, "a version of what is alleged to be stated in a portion of the report" had been published in the Press and this was fuelling "malicious innuendo and irresponsible character assassination".

Mr Gandhi's advisers decided the Government would seem to have something to hide, if the initial decision not to publish was adhered to.

Officials let it be known that a special investigation had established Mr Dhawan was not involved in either "the crime or conspiracy leading to the assassination of the late Indira Gandhi".

Political confusion hits S Korea

By Maggie Ford in Seoul

SOUTH Korea was engulfed in political confusion yesterday as rival political parties campaigned both for and against holding a national referendum on the performance of the President.

In a dispute which is rapidly reaching the level of farce, Mr Kim Dae Jung, the main Opposition leader, demanded that the referendum be put off on the grounds that it would be confrontational and threaten national stability.

President Roh Tae Woo, who promised the referendum during his election campaign in 1987, reached agreement with Mr Kim two weeks ago that any referendum should take the form effectively of a national opinion poll, which would not affect his tenure.

Hardliners in Mr Roh's party are insisting that the Presidency should be at stake in the referendum.

Their views are supported, paradoxically, by Mr Kim Young Sam, the second Opposition leader, who is leading a strong campaign against Mr Roh's leadership, which he believes is holding up democratisation in South Korea.

Moderates in the ruling Democratic Justice Party are reported to be desperately seeking a way round the referendum dilemma, which they fear will lead to a confrontation with hardliners who wish to slow or reverse the democratisation process.

The Korea Bar Association has ruled that a referendum on President Roh's tenure is unconstitutional. A week ago, the Supreme Court overturned the election of a ruling party MP in last year's National Assembly vote on technical grounds, opening the way for a by-election.

Parties have not, however, taken up the by-election option as a way of testing public opinion. The strength of the ruling hardliners was shown last week, when Mr Kim Yong Gap, a Cabinet Minister and former military officer, resigned in protest at "the rise in radical leftism in South Korea."

In an implicit criticism of Mr Roh's rule, he claimed many people felt the need to assess the President's term. Mr Kim's comments were interpreted as an effort to force President Roh to return to the policies of his predecessor, Mr Chun Doo Hwan. Mr Roh has received support in his apparent efforts to avoid confrontation from Mr Kim Jong Pil, the third Opposition leader, as well as Mr Kim Dae Jung.

Both leaders believe the country should proceed with clearing up the investigations into the former regime before holding any vote.

US bans imports of some Hyundai memory chips

By Louise Kehoe in San Francisco

AN ORDER banning imports of certain types of memory chips made by Hyundai of South Korea has been issued by the US International Trade Commission.

The order is part of a final ruling on a trade complaint filed in 1987 by Intel Corporation, a major US semiconductor chip maker.

In its complaint, Intel claimed that Hyundai's Erasable Programmable Read Only Memory (EPROM) chips violate several of its patents.

Intel is the leading US manufacturer of EPROMs and holds about an 18 per cent share of the $1.8bn (£1bn) world market for the chips, industry analysts said.

EPROMs are widely used in personal computers as well as in several types of consumer electronics products to store programs and data.

The ITC ruled that Hyundai had engaged in unfair trade practices by selling chips that violate some of Intel's patents.

The case is believed to be the first in which patent violations *have been alleged* to constitute unfair trade.

The ruling may set an important precedent for US chip makers who are involved in several disputes over patents and copyrights with Asian competitors.

Also covered by the ITC ruling are Hyundai's US distributors and small US-based companies that designed Hyundai's EPROMs.

Intel said the ITC's "cease and desist" order prohibits the companies from bringing Hyundai's EPROM chips, or products containing those chips, into the US.

Community spirit – crime of the intifada

Andrew Whitley, recently in Nablus, meets a victim of the Israeli crackdown

JINAN al-Bitar was a well-known person in Nablus, the largest city in the West Bank, even before she went to jail. Unmarried, she had devoted most of her 46 years to doing good works in her community.

She was vice-president of the Women's Federation; executive director of the local branch of the Red Crescent, the Palestinian equivalent of the Red Cross, and treasurer of its central committee for the West Bank; member of a committee for handicapped children . . . the list went on and on.

The Shin Bet secret police must have had their eye on this flinty, stern-faced woman for some time. In 1982, she had been banned from teaching at a local secondary school, for "security reasons" she was told.

It was her role as the Red Crescent's treasurer, a sensitive post which involved handling large sums of money, that got her into trouble again last May.

At the time there was a crackdown on funds being transferred from abroad, the oxygen of the *Palestinian* uprising then in its sixth month. So, when Israeli soldiers raided her house one morning and found over JD100,000, the equivalent of $300,000, they must have thought they had hit the jackpot.

Sentenced to three months imprisonment and a fine of about $3,000, at her trial the judge acknowledged there would have been no case to answer *if it had not been for* the uprising.

Denying that she had been involved in anything illicit, Ms Bitar claimed that the money had been brought to her directly from Mr Marwan Doudin, then Minister for the Occupied Territories in the Jordanian *Government.*

For years, a joint committee made up of Jordanian officials and representatives of the Palestine Liberation Organisation in Amman had disbursed funds to many individuals and bodies in the West Bank, including the Red Crescent, without *interference* from the Israeli authorities.

Last month, looking pale and drawn, she was released after serving nine months in prison. The original sentence had been prolonged by the Ministry of Defence, by slapping an administrative detention order on her *immediately* before the *judicial* sentence was due to expire.

As Amnesty International, which adopted Ms Bitar as a prisoner of conscience, points out, the purpose *of administrative* detention is meant to be preventive rather than punitive.

A Palestinian woman covers her face as an Israeli soldier sprays her with Mace after a stone-throwing incident in the West Bank

Although women have played, by traditional Arab social standards, a remarkably active role in the intifada, as the uprising has become known, very *few have* been imprisoned.

Out of the six thousand or so Palestinians currently in detention, less than 50 are women. *Only four are* considered as hard-core organisers who merit administrative detention, for which no trial is required.

For Ms Bitar, conditions in Hasharon Prison had bordered on being harsh. Israeli common criminals were treated much better, she claimed.

But, aware of the revered status of women in Palestinian society, in general the authorities have appeared *careful to* treat female activists with restraint.

"If they apply the same behaviour to women as they do to men, there will be a much more violent reaction. It will be *like hell,"* exclaimed Mr Massadaq al-Masri, a relative.

Over the past weeks, an endless stream of friends and relatives have called at Jinan al-Bitar's large house, in a well-to-do suburb of Nablus, to welcome her back.

Her black hair cut short in a prison crop, her lined face unmade up, she would rise *every few minutes to greet* another group of society ladies dressed in their party best. Had she been singled out as a deterrent, or warning, to others? "Yes, maybe, maybe so," she smiled. Not that her resolve had been weakened by the experience. The one thing she said she was *anxious* to do was to resume her work, in all its aspects.

Amid the bric-a-brac of a typical Palestinian home, the only sign of her political commitment was a wall map of Palestine, covering the whole of the old, pre-1948 Mandate territory. *Emblazoned on it was the* PLO's flag. Outside in the weak spring sunshine an orange tree was in prodigious bloom.

OVERSEAS NEWS

Ceausescu seeks to snuff out party dissidents' spark of protest

An open letter is facing Romania's strongman with one of his biggest challenges since he assumed power, Jonathan Eyal writes

PRESIDENT Nicolae Ceausescu of Romania is currently facing one of the most severe political challenges to his rule since he assumed power in 1965.

In an open letter published last week, veteran communist party members took Mr Ceausescu to task, accusing him of destruction of Romania's economy and agriculture which amounts to a threat to the "biological existence of the nation", the terrorisation of the country's population and the forced assimilation of its ethnic minorities.

The signatories of this public protest represent an impressive array of high-ranking party and state figures.

Topping the list are Mr Gheorghe Apostol, a man who briefly led the party as First Secretary in 1965, Mr Alexandru Birladeanu, who chaired the State Planning Committee, and Mr Constantin Pirvulescu, a founding member of the party and chairman of its Control Commission for almost 20 years.

Some of the signatories, notably Mr Pirvulescu and Professor Silviu Brucan, have challenged Mr Ceausescu before. Mr Pirvulescu attacked Romania's president for his personality cult during the Twelfth Party Congress in 1979.

Prof Brucan, a former acting editor of the party daily and Romanian ambassador to the UN and the US, used Western media to warn against Mr Ceausescu's policies after workers rioted in the city of Basov in November, 1987. However, never before had Romania's president experienced such a sustained and coordinated attack from party veterans.

At first glance, it would appear that President Ceausescu should have no trouble in dismissing the protest as a final gasp of disgruntled and long-dismissed party veterans: Gheorghe Apostol is 77, Mr Pirvulescu is 94 and both have drawn their party pensions for many years.

Their protest against the interception of mail, the disregard of workers' interests and the harassment of the population by the ubiquitous secret police would also elicit a hollow ring, for the application of terror as an instrument of social control did not start with Mr Ceausescu; it had actually been applied during their own stewardship in power.

Nevertheless, their challenge to Mr Ceausescu's regime remains very real and serious.

The open letter is carefully drafted and its signatories deftly chosen. President Ceausescu always listed the initiation of his country's policy of independence within the Warsaw Pact as his personal achievement.

The implication of this claim was that, regardless of present economic hardships, only the continuation of Mr Ceausescu's policies could safeguard Romania's national self-esteem and prevent interference from the Soviet Union.

The dissident party members are seeking to remove the mantle of Romania's nationalism from Mr Ceausescu's shoulders. One of the signatories to the open letter is Mr Corneliu Manescu who, as Foreign Minister in the 1970s and president of the UN General Assembly, helped to spearhead Romania's opening to the West.

The signatories also carefully point out that Mr Ceausescu's abuse of nationalism has resulted in the alienation and mass emigration of the country's ethnic Germans, Jews and Hungarians. Finally, they forcefully remind the President that his foreign policy gains are now a thing of the past, since "all the leaders of the non-communist nations of Europe refuse to meet with you".

Most significantly, the open letter is clearly intended to become a rallying cry for the support of other influential Romanians and, as such, it may provide a possible spark for a wider opposition to Mr Ceausescu.

While its signatories are careful not to call for the President's removal, they do suggest that, since his Government's ineptitude and incompetence at solving the country's problems is already manifest, cosmetic improvements will no longer do.

The most interesting passage in the letter relates to the Securitate, Mr Ceausescu's dreaded security service and important supporting pillar.

The signatories state that this service was created "to defend the socialist order against exploiting classes" and charge Mr Ceausescu with turning the security forces against workers and intellectuals.

By implying that the Securitate was not created to defend only one ruler and by suggesting in the same breath that the security services to have an important role in Romania's society, the dissidents may be attempting to convey to the security services themselves that their currently privileged position is guaranteed, and that its senior commanders may not necessarily suffer retribution should they abandon their support for Mr Ceausescu.

It is essential to remember that the signatories of this protest are dissidents of a very special kind. They demand the abandonment of current policies aimed at the destruction of villages and a general improvement in the condition of ordinary Romanians.

These are considered necessary not in order to transform Romania into a pluralist society, (of which there is no mention), but in order to save socialism and preserve the party's monopoly of power.

In practice, their pleas amounts for an enlargement of the circle of rulers from one man (and his wife) to a collective leadership more akin to their version of "real socialism".

Within the context of Mr Ceausescu's rule, which entailed the destruction of most independent intellectual activities, this is probably the best that could be expected.

Their protest has two major aims. In the area of economics, the open letter suggests an (albeit vague) alternative to Ceausescu's investment policies. This is particularly important at the moment, for Romania is at a crucial economic juncture.

The elimination of the country's foreign debt was Mr Ceausescu's obsession, born out a desire to retain "true independence". To this end, only were all imports forbidden, but a large share of the country's food production was exported in complete disregard of the interests of the population.

Mr Ceausescu has just announced that the policy of investment in the country's hugely inefficient heavy industry would continue; the party dissidents argue that this must be stopped and the interests of the Romanian consumers should be taken into account.

In the political field, the most important aim of the protesters must be to stem the rise of Mr Ceausescu's wife Elena and the possibility of a family succession. Elena Ceausescu's own favourite courtiers are much in evidence and the President's wife, who enjoys her own personality cult, is increasingly influential in party and state decisions.

While the aims of the letter are clear, its practical effects are more difficult to predict. The Soviet Union, now keener than ever to avoid any explosion of popular protest in any East European state, will no doubt take heart from the fact that the only effective opposition to Mr Ceausescu is still contained within the party.

Ceausescu: taken to task by veteran party members

Moscow, however, is still likely to retain only marginal influence over the Romanian political succession. The final outcome would depend to a large extent on the dissidents' ability to harness support for their platform, especially before the forthcoming Fourteenth Party Congress scheduled for this year.

The first indications are that Mr Ceausescu is aware of the challenge. He is tackling the problem by isolating the letter's signatories and arresting their immediate family dependents, one of which has already been charged with spying for "a foreign power".

Whether this will be enough to contain the debate remains to be seen. One thing is certain: the options available to Romania's strongman are being increasingly narrowed.

Jonathan Eyal is assistant director for studies, Royal United Services Institute for Defence Studies, London.

Portugal slams on the financial brakes

By Diana Smith in Lisbon

AFTER EIGHT months of raging inflation that reached 12.2 per cent in February and three years of unrestrained consumption, Mr Miguel Cadilhe, Portugal's Finance Minister, has slammed on the brakes.

At the weekend, he announced sweeping measures to try to cool inflation and contain an external account with a $5bn (£2.7bn) trade gap, the worst in seven years, that showed a balance of payments deficit for the first time in four years, of $400m. The measures were:

- A ban on hire purchase of clothing and gadgets such as video recorders;
- Downpayment of 50 per cent on hire purchase of cars of less than 1400cc and full payment in one year;
- A ban on passenger car leasing;
- Cash down in full for passenger cars of more than 1400cc.
- Compulsory bank reserves of 17 per cent of all deposits;
- Monthly rather than bimonthly official credit ceilings, followed up fortnightly to make sure they are obeyed.
- A ban on foreign borrowing by the public or private sector that is not previously authorised by the Bank of Portugal. To get round ceilings, private sector foreign borrowing has grown rapidly;
- An end to foreign currency swap operations that permit new Portuguese or foreign banks to increase lending ratios.
- A 4.33 per cent maximum annual interest on current accounts aimed at reducing disposable cash.
- Liberalisation of mortgage interest, to make house purchases more expensive.

The restrictive mini-budget, unveiled two days after February's 1.3 per cent monthly inflation rate was revealed, is Mr Cadilhe's first admission of the hollowness of his claim that Portugal could reconcile consumer-fuelled growth with low inflation.

While demand raged, production, though growing, could not keep up. Imports soared; their inflationary impact mounted as 1985-87's cheap dollar and commodities faded. The inflationary public debt (75 per cent of $40bn GDP) swelled through EC-related infrastructure investment and public corporation losses.

Above all, inflationary expectations took off in mid-1988, when the public, seeing inflation rise, stopped believing government promises of 6 per cent year-end inflation. In December, inflation hit 11.4 per cent.

Mr Cadilhe's new credit strictures dashed hopes that 1989 will be the year when official ceilings end. He has apparently won his three-year-long battle with Mr Jose Alberto Tavares Moreira, the Governor of the Bank of Portugal, who fought for liberal, market-driven credit regulations.

The Governor, seemingly tired of the uneven struggle against unyeilding state intervention, is reported to be leaving his post this spring and returning to a less frustrating private sector.

Bankers meanwhile feel credit ceilings have proved to be ineffectual tools against inflation and are a serious impediment to the strengthening of Portugal's financial system in time for the 1992 Single Market.

Vice-chairman of Ford Europe to retire

By John Griffiths

ONE of the best-known motor industry figures in Europe and the US, Mr Walter Hayes, is to retire on May 1 as vice-chairman of Ford of Europe and a vice-president of Ford Motor Company.

Mr Hayes, 64, whose career with Ford has spanned 27 years, was also well-known in UK journalism. He was associate editor of the Daily Mail and editor-in-chief of the Sunday Dispatch at the age of 32.

He joined Ford as its public affairs manager in Britain in 1962 and became vice-president of public affairs for Ford of Europe six years later.

Since then he has held senior Ford positions in the US, West Germany, Switzerland and Belgium, playing a pivotal role in developing Ford's motor sport activities.

SHIPPING REPORT

Tanker rates continue weak

By Kevin Brown, Transport Correspondent

RATES continued to be weak in the tanker market last week as buyers responded to rising oil prices by delaying purchases until the price stabilises.

Demand for tanker tonnage continued to decline but the number of ships awaiting employment in the Middle East remained relatively steady.

Brokers said this was partly because some tonnage was absorbed by a number of private fixtures. Ships of around 250,000 tons deadweight were being fixed from Iran to the Red Sea at New Worldscale 34/35 and around New Worldscale 33 to the East. A US oil company was said to have fixed a vessel of 220,000 tons from the Gulf to Singapore at New Worldscale 34.

Rate levels also fell in West Africa, where a ship of 126,000 tons was fixed to Spain at New Worldscale 67½

The picture was slightly brighter for owners in the Mediterranean, where a ship of 130,000 tons was fixed at New Worldscale 74 for the cross-Mediterranean voyage, and a VLCC was fixed at New Worldscale 37½ to the US Gulf. Rates were more or less static in the North Sea.

WORLD ECONOMIC INDICATORS

RETAIL PRICES (1980=100)

	Feb '89	Jan '89	Dec '88	Feb '88	% change over previous year
W. Germany	125.0	124.6	123.3	121.8	2.6
Italy	231.0	229.2	227.4	217.9	6.0
Netherlands	123.5	123.2	124.4	122.4	0.9
Japan	116.3	116.5	116.5	114.9	1.2
Belgium	148.7	148.1	147.5	145.0	2.6

	Jan '89	Dec '88	Nov '88	Jan '88	% change over previous year
UK	166.1	165.0	164.6	154.5	7.5
France	175.0	174.0	173.7	169.4	3.3
USA	147.0	146.3	145.9	140.4	4.7

Source: (except US) Eurostat

UK NEWS

IBA may allow friendly bids for ITV companies

By Raymond Snoddy

THE Independent Broadcasting Authority is prepared to accept friendly takeovers of ITV companies before their present franchises run out at the end of 1992.

The authority believes it would not be right to block automatically proposals designed to strengthen an ITV company in advance of the competitive tendering process by which commercial television licences will be allocated next time round.

Such takeovers would have to be supported by the executives of the ITV company.

Friendly takeovers will not be considered until 1990 when the IBA gives way to the Independent Television Commission, the new commercial television regulatory body.

Until now the IBA has ruled that an ITV franchise holder may not be taken over in mid-franchise. That prevented Mr Michael Green's Carlton Communications taking over Thames Television even though the main shareholders, Thorn EMI and BET, were willing to sell.

Mr George Russell, IBA chairman, is determined to have a period of stability while the Government's planned broadcasting bill goes through Parliament.

Mr Russell also wants a period of stability after the

George Russell: determined to have a period of stability

awarding of franchises.

In evidence to the Home Office on its broadcasting white paper to be published tomorrow, the IBA asks for a two-year moratorium on hostile takeovers from the beginning of new 10-year franchises which start on January 1 1993.

After that, the IBA concedes, the market should be allowed to take its course.

The IBA document, already being seen by the Government as "very interesting," tries to go with the grain of government proposals as far as possible but is critical of some white paper suggestions.

Plans for privatised regional transmitter companies are attacked. Instead, the IBA suggests hiving off its transmission system but as a national network.

The IBA also believes the Independent Television Commission should have responsibility for creating a national Channel 3 programme network, something the Government said should be left to the companies themselves.

There is also backing for Channel 4's preferred version of its own future – as a subsidiary of the ITC, selling its own air time but with minimum financing guarantees to protect its programming remit.

Most important, the IBA has put forward an alternative to the Government's proposals for "brown envelope" highest-bid auctions of franchises after a *quality threshold*.

The IBA proposal involves an element of bidding – applicants will have to say what percentage of their revenue they are prepared to give to the Treasury in addition to paying an independently assessed annual rental fee. The combination would be a substitute for the present levy.

Built into the process, however, would be rigorous assessments of an applicant's business plan and particularly the quality of programmes.

DTI to keep spending big amounts on publicity

By Hazel Duffy

THE Department of Trade and Industry's spending on publicity will continue at the present high level into the early 1990s.

An internal memorandum setting out the requested allocation for the publicity budget, sought as part of the department's overall request for allocation in the 1989 public spending round, puts spending plans at about £27m for each of the next four years.

Lord Young, Trade and Industry Secretary, has raised the department's public profile with television and press advertisements, and with brochures. MPs criticised his publicity budget but he appears undeterred.

None the less, the plans are for lower levels than the *department wanted initially*. The initial request for the financial year beginning next month was for £29.6m, against the £29m that the department will have spent in 1988-89. The figure agreed was trimmed to £25.6m. In the light of that, the request for the following year has been cut, but a small rise, to £27.8m, is planned for the following year.

The department's information division, in support of the request, predicts that in particular the cost of advertising will rise faster than inflation.

The single biggest call on the budget is the publicising of the *Enterprise Initiative*. That campaign was launched in January last year when Lord Young turned the department into "the dti, the department for Enterprise". The advertising is aimed at telling business about aid offered by the department.

The 1992 campaign, which has been designed to increase awareness of the single European market, will continue to 1992, although spending will *subside*.

The department says actual allocations will depend on the progress of current publicity campaigns.

Provision is being made for the expected increase in demands on the publicity budget from the executive agencies Lord Young plans to establish as part of the Next Steps exercise.

Inflation nerves and pessimism over rates beset economists

By Ralph Atkins, Economics Staff

CITY ECONOMISTS are nervous about the outlook for inflation and pessimistic about an early cut in interest rates, according to reports published by securities houses at the weekend.

Last Tuesday's Budget was *necessarily cautious, but did* little to calm fears about cost pressures and higher interest rates around the world, the economists say.

Attention this week is likely to focus on figures for February's retail price index to be released on Thursday and widely expected to show the annual inflation rate approaching 8 per cent.

UK share prices fell steeply last Friday after much worse figures than expected for US factory-gate prices. They heightened fears that US interest rates will rise, with knock-on effects on domestic *interest rates*.

Mr Gwyn Hacche and Mr Keith Skeoch, economists at *James Capel*, say the latest figures on UK labour costs "cast grave doubts" on the Treasury's forecast of 5½ per cent inflation by the end of 1989.

They say even a slowdown in earnings growth will not offset the lower growth in productivity as the economy slows down. Wages per unit of output are likely to continue to grow *at more than 7 per cent a year.*

"In the light of the strong inflationary pressures in the economy," they say, "we now think only one cut in mortgage rates is likely this year: we had previously pencilled in two."

Economists at Barclays de Zoete Wedd say the Budget will bring domestic demand under control and Mr Nigel Lawson, the Chancellor, will not be pushed into easing policy. "Monetary and fiscal policy will stay tight: we have pushed out the prospects of a base rate cut from May/June to the autumn."

Mr David Kern, chief economist *at National Westminster* Bank, says the Budget was "very cautious, almost timid." He argues that growth in M0, the narrow measure of the money supply, is likely to return within months to its 1-5 per cent target range set by Mr Lawson, while sterling should remain resilient.

He says: "As the slowdown in the economy becomes more pronounced, base rates will be down to 12½ per cent by the *middle of the year and 10½ per* cent by end-1989. Sterling will fall in a controlled manner to below DM 3 towards the end of the year."

Mr Mark Cliffe, chief economist at Nomura, says: "Interest-rate reductions will depend as much on signs that the deterioration in the current account is being stemmed as on evidence that domestic inflation pressures are abating."

He says neither Thursday's inflation figure nor next week's trade figures are likely to give grounds for lower rates until the second half of the year.

Mr David Smith, economist at Williams de Broe, says the Budget failed to tackle the root causes of excess demand and missed the chance to improve the economy's *supply side.*

BR Channel mission meets Kent resistance

By Rachel Johnson

BRITISH Rail's first move to promote the high-speed link to the Channel tunnel to Kent residents met stiff resistance at the weekend.

The team from BR, led by Mr John Welsby, international director, was not surprised to confront a thousand chanting protesters outside County Hall, Maidstone, before facing selected pressure-group spokesmen within. Some of the loudest boos, however, were reserved for Kent County Council.

While BR was predictably accused of incompetence, intransigence and arrogance during the meeting, Mr Tony Hart, council leader, drew accusations of a different sort.

Mr Larry Becker, of South Darenth, which will lose 350 out of its 9,050 homes to blight, led the protesters' reaction to the "rail-link promotional exercise".

"*Did you go to South Darenth before or after you cooked this up with British Rail?*" he asked Mr Hart.

Protest groups rejected Mr Hart's claims that BR had sensibly followed his "shopping list of criteria" to produce a friendlier route.

Mrs Allison Walnman, leader of the Democrat group, supported them. BR had not suddenly decided, at Mr Hart's behest, that there should be a new, "environmentally sensitive" realignment. The "new" route had been decided, not 10 days ago, but five months ago, at secret meetings between BR and the council which had set up a confidential "High Speed Rail Link Working Group."

She supported groups' claims that the council was "an upper-crust Tory outfit" that had failed Kent residents by giving "any sort of welcome" to BR's plans.

Mr Hart's assurance that he was "not selling Kent down the river" will be tested at the council elections in May, she predicted. "BR will find things will no longer go their way in Kent County Council," she said.

As far as residents are concerned, things will never go BR's way if they can possibly help it.

Moore rejects family benefit criticism

By Philip Stephens, Political Editor

MR JOHN MOORE, Social Services Secretary, yesterday rejected Labour charges that the Government had reduced the numbers of people eligible for Family Credit, the key benefit aimed at helping poor families with children.

A political row over the benefit erupted at the weekend after Mr Moore released new government figures showing that the number of families eligible to receive it was far less than previously thought. The Opposition said the move marked another attempt by the Government to reduce the cash available to the poor.

Mr Moore will today mark the start of a campaign to encourage more families to apply for Family Credit with a conference of social security officials from around the country. It will be followed in about two weeks with the start of a £7m advertising campaign to explain the benefit to potential applicants.

The political significance lies in the fact that the Government argued strenuously last year that the much closer targeting of Family Credit towards the most needy families provided a clear justification for its decision to freeze the value of child benefit.

Since then, however, the official figures have shown that only a relatively small proportion of eligible families – 30 to 40 per cent – has been taking up Family Credit. That has encouraged a number of Conservative MPs to join with the Labour Party in demanding that the Government should reverse last year's decision to freeze child benefit.

However, Mr Moore argues that the new analysis suggests that the take-up figure has been artificially depressed by an initial overestimate of the numbers of eligible families. That figure was originally put at 750,000 but is now thought to be closer to 500,000.

The analysis suggests that during 1988 about half the families eligible received Family Credit, while about 65 per cent of the potential expenditure was disbursed.

New materials' threat to metals 'is exaggerated'

By Richard Tomkins, Midlands Correspondent

FEARS THAT Britain's traditional metal-forming industries are under imminent threat from the development of new engineering materials such as ceramics are exaggerated, according to a report by the West Midlands Enterprise Board.

Metals especially steels will remain the overwhelmingly dominant engineering material in the short to medium term, the study says.

However, it warns that Britain is in danger of being left behind in the race to develop new materials by its failure to invest adequately in research and development.

The report comes in response to fears that the wider application of plastics, ceramics and advanced composites might affect the West Midlands region, which has the highest concentration of metal-based manufacturing industry in Britain.

It acknowledges that the new materials have a range of properties that can improve existing products. They have particularly good potential in the automotive, electronics and aerospace industries.

Yet the growth in take-up is limited to 7 per cent to 20 per cent a year, the report says, and is unlikely to threaten the dominance of metal products for some time because it is starting from such a low base.

One reason for the slow take-up is that engineers are often cautious about using new materials in untried applications because of safety and reliability factors. Another is that the timetable for introducing new materials is much longer than some forecasts suggest. Traditional materials are also relatively cheap and are being improved.

New Engineering Materials Sector Review. West Midlands Enterprise Board, Wellington House, 31-34 Waterloo Street, Birmingham B2 5TJ. £20.

IRA must be defeated, Molyneaux says

By Our Belfast Correspondent

MR JAMES MOLYNEAUX, leader of Ulster's Official Unionist Party, has ruled out any hope of immediate political progress in Northern Ireland and called on the Government to concentrate on defeating the IRA.

Addressing the annual meeting of his party's ruling council in Belfast at the weekend, Mr Molyneaux criticised those who had been advocating talks to end the violence. He said that while Mr Tom King, Northern Ireland Secretary, attempted to engineer inter-party dialogue, the reality was that there could be no solution because the age-old divisions would not heal quickly.

He said: "You cannot ignore divisions by forcing a shotgun marriage between those who are British and those who – with varying degrees of enthusiasm – are attracted to ideals of Irishness."

UK NEWS

Whitehall data processing will go partly private

By Terry Dodsworth, Industrial Editor

THE GOVERNMENT is planning to hand over about a third of Whitehall's computer services business to the private sector during the next five years in a move that will be worth about £500m a year to suppliers by 1994.

The move marks a further shift from internally run services in government departments after the recent decision to hire outside contractors to handle most departmental telephone traffic. Privatisation will vary from department to department but is likely to affect almost all of the Government's non-military computing.

Rapid acceleration in the use of private information technology companies is regarded in Whitehall as another aspect of the Government's drive to hive off as many services as possible from the central bureaucracy.

Officials insist that departments are acting individually without any general government instruction. But they concede that the move towards privatisation reflects the current trend of government thinking.

At the same time, pressure for more privatisation has been increased by staff shortages in Whitehall as experienced professionals have left for more lucrative employment elsewhere.

Traditionally, government departments have tended to act as training grounds for the industry but in recent years the loss of trained employees has coincided with a big acceleration in Whitehall's use of computers.

Companies that will benefit from the planned changes will be in a variety of areas such as computer consultancy and systems management – developing systems that can then be handed over to the departments to run, or in managing facilities entirely for the government.

Those types of businesses accounted last year for about 10 per cent of total government spending on information technology of £1.85bn.

The shift towards the private sector is coming under attack from the public-sector unions. But it has been widely welcomed in the computer software and systems industry, which has been pressing the Government for some time to hand over more of its work to outsiders.

Mr Geoff Holmes, president of the Computing Services Association and technical director of SD-Scicon, Britain's largest software services company, told a CSA conference last week that policies to open up the market in public information systems would mean more international competition. "We should not fear that," he said.

Tories plan sales drive on policies

Philip Stephens on the rumblings of a party with mid-term blues

NO ONE on the platform at this weekend's Conservative Council meeting in Scarborough actually uttered the phrase "No turning back", but the message could hardly have been clearer. Mrs Margaret Thatcher's reassertion of her Government's determination to press ahead with its radical programme followed a string of similar pledges from her senior Cabinet ministers.

In private conversations outside the sea front conference hall, they were equally adamant that the pause sought by a growing number of Conservative backbenchers was simply not an option.

To stop now would run the risk of the Government being seen to lose its grip, potentially far more dangerous than concerns that it might be pushing ahead too far and too fast. Ministers prefer to speak of squalls rather than storms and offer regular reminders that the Government was much more unpopular at this stage in its second term.

But if Mrs Thatcher's comment that her 10th anniversary in May should be marked by relish of – not retreat from – the present challenges was undisputed, Conservative leaders are not ignoring the message of the opinion polls.

The party's senior strategists generally acknowledge that if there is no choice but to stick with the policies, a great deal more effort needs to be put into their presentation.

Margaret Thatcher: relish of present challenges

Alongside that, there is concern that Labour's rush towards the centre ground might – just might – turn the current bout of mid-term blues into a real threat to what is still seen as an inevitable general election victory in 1991.

In her speech, Mrs Thatcher dwelt at length on the planned reform of the National Health Service, feeling it necessary to repeat three times that there were no plans to privatise it.

That reflects evidence from the party's private polls that Labour's repeated assertion that the Government is intent on breaking up the NHS is having an effect.

The possibility that some 30,000 general practice surgeries around the country might become centres for opposition to the reforms was similarly mirrored in the Prime Minister's categorical assurance that "no one is going to compel the doctor to handle his own budget." Mr Kenneth Clarke, Health Secretary, was similarly emphatic about the commitment to a free NHS.

After the admission earlier this month that the planned sale of the water industry had been "mishandled," Mrs Thatcher felt obliged to call this weekend for Conservative activists to give full support to Mr Nicholas Ridley, Environment Secretary, in his efforts to promote its virtues.

It is not just the NHS reforms and water privatisation that party leaders consider need better marketing.

Thus Mr Kenneth Baker, Education Secretary, reminded the Scarborough audience that they should refer to his proposed system of student financing as "top-up loans," not as a substitute for student grants.

Mr John Gummer, local government minister, signalled the expected opposition to the poll tax with a plea for Conservative canvassers to promote its benefits in the run-up to May's local elections.

In the background there were also rumblings about the presentation of last week's Budget. Few, if any, disputed the decision of Mr Nigel Lawson, Chancellor, to opt for a cautious package, but there was a perception that the reform of National Insurance Contributions to help the low-paid had been "undersold."

The second strand of the Government's strategy came in the repeated attacks on Labour's policy review. The aim is to undercut the claims that Labour has dumped the policies of the 1970s that left Britain in "economic ruin and cultural decline", and that Mr Neil Kinnock, Labour Party leader, can produce a credible defence policy.

Labour, Mrs Thatcher insisted, remained trapped in the "potholes of history." Whatever the results of its review, it would remain committed to abandoning Britain's "surest means of preventing war – its nuclear weapons".

That theme will be repeated over and over in the next few months as party leaders continue to monitor the opinion polls.

Ministers may be relatively sanguine now, but they cannot afford to allow public disquiet over their own policies to run in tandem with a re-emergence of Labour as a potential alternative government.

Demand for offices 'growing faster in south-east England'

By Paul Cheeseright, Property Correspondent

DEMAND FOR business space across the financial, professional and manufacturing sectors is growing faster in the south-east of Britain outside Greater London than within the metropolis.

The main factor behind the demand for extra space is business expansion, Jones Lang Wootton, chartered surveyor, reports after a survey in January of 400 companies across the region.

For 30 per cent of JLW's sample, accounting largely for banks and professional companies, the City of London remains the favoured area for expansion.

A further 30 per cent is expected to seek space elsewhere in London; half the sample will be looking more widely through the south-east.

JLW found that the banks, in spite of large but isolated cases of decentralisation, continued to prefer to expand in the City. Its conclusions were corroborated by research from Morgan Grenfell Laurie, chartered surveyor.

Its survey of 50 foreign banks in London found not only a general expectation that the City would remain Europe's financial centre but that two thirds of the sample would expand in the City itself.

Underpinning the need for expansion are plans to engage more staff. The JLW survey found that there was likely to be a growth in staff numbers of 2 per cent over the next year, compared with 2.4 per cent in the year to this January. That would probably mean a rise of 40,000 office jobs among the 400 companies.

The gross demand of companies in this category for space over the next two years is nearly 10m sq ft. However, expansion in one place leads to vacancy in another, which suggests that net demand would be 3.3m sq ft, equivalent to 5 per cent of current office stock.

The timing of company movements is of especial significance to the property market and JLW predicted a bulge in the second half of 1990, when a disproportionately large share of space – amounting to 68 per cent of the 2.7m sq ft expected – would come on to the market in central London.

However, a significant proportion of offices now being built will become available just at this time.

Soviet Union buys 'expert' software

By Alan Cane

BRITAIN IS helping the Soviet Union to develop and apply advanced new software that gives computer systems the appearance of intelligent behaviour.

In what is believed to be the first deal of its kind involving "intelligent" computer programs, Expertech, a small British company based in Slough, Berkshire, has sold Xi Plus and Xi User, its "expert systems," to New Information Technologies, a Soviet organisation charged with introducing advanced technologies into Soviet industry.

The deal, worth £3.2m, was signed after some three years of tentative negotiations. It allows for unlimited distribution of the two programs throughout the Soviet Union and for the development of a Russian-language version. However, under the rules of CoCom, which monitors the export of high technology to Soviet bloc countries, Expertech is forbidden to help the Soviet Union to develop specific applications.

Expert systems give computers the ability to provide apparently reasoned answers to queries concerning specific areas of knowledge. They are still new in the West, but their use is growing rapidly, especially in large organisations.

Companies in the US, Japan and Europe that have used expert systems seriously report dramatic improvements in productivity and profits.

For example, American Express has developed a system for credit authorisation which it believes is saving it $27m annually.

Nippon-Kokan Steel has a system for detecting faulty behaviour in blast furnaces which is claimed to be as reliable as a human supervisor with 20 years' training.

The National Health Service developed a system for evaluating health care that carries out in nine minutes analyses which used to take six experts two hours.

In spite of their potential, most expert systems have been experimental and expert systems companies – such as Expertech in the UK and Intellicorp in the US – have not seen the financial returns they had anticipated.

Market researchers now believe the experimental period in expert systems is finished. Ovum, a London-based consultancy, believes industry will spend £250m on expert systems this year.

Expertech says the Soviet deal will give it the financial resources to accelerate its development plans and sell a wider range of products.

The Soviet Union is planning to use the systems to spread scarce specialist knowledge cheaply through the economy, especially in the industrial, scientific and medical sectors.

Soviet computer specialists can develop expert systems such as Xi Plus, but lack the industrial infrastructure to put the systems into practice.

Retailers still have scope to grow, study suggests

By Maggie Urry

RETAILERS should be able to grow even though markets are becoming saturated with too many shops, according to a study by Coopers & Lybrand, the management consultancy, and the Oxford Institute of Retail Management.

The research suggests that although some local markets appear to be over-provided with food and do-it-yourself stores – the two sectors most concerned about saturation – opportunities for retailers remain.

The study suggests that "the issue is not so much saturation, it is more a question of who will be the winners and the losers in increasingly competitive markets."

Cost pressures on new large stores have shown retailers that they need to make the best use of existing space, the research team believes.

Even so, retailers can win business by identifying local markets that have too few shops and gain an edge over their competitors through offering a distinctive product range and service.

Ms Glenne Gibson, of Coopers & Lybrand, argues that consumers will react against high streets and shopping malls that look increasingly alike. "Stores look alike, product ranges are similar and concepts are rolled out nationally with generally very little adaptation to local or regional requirements," she says.

Shoppers will get tired of new designs faster, so that retailers will have to adapt more quickly to satisfy "the constant and continuing demand for choice and novelty," she says.

"In the 1980s, retailers used fascia and environment design to differentiate themselves. In the 1990s we will see differentiation more through product design and service."

Study available from Oxford Institute of Retail Management, Templeton College, Kennington, Oxford OX1 5NY. £45.

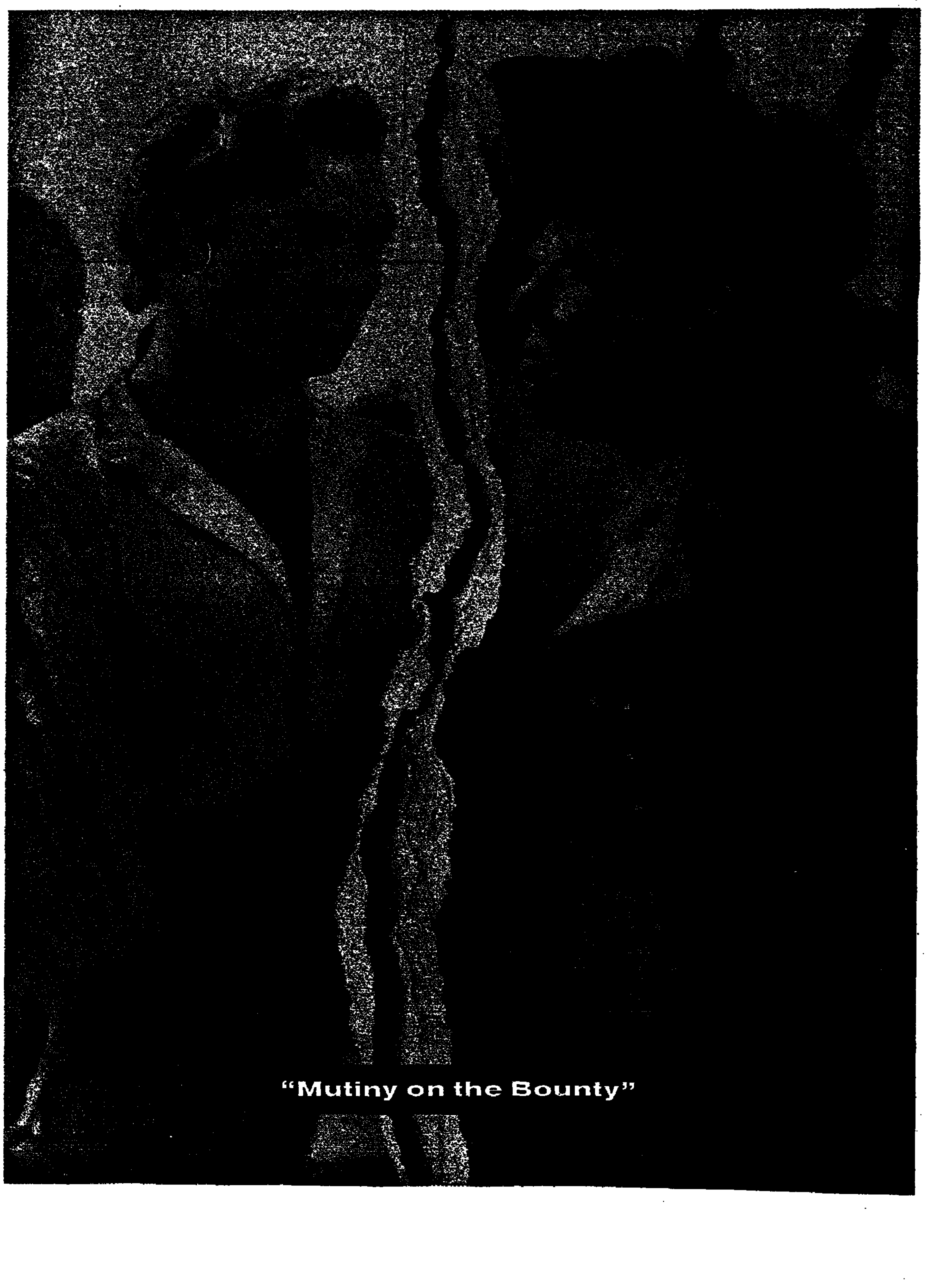
British Coal sells Cardiff HQ

BRITISH COAL has sold its former regional headquarters building in Cardiff to the Oldway Group for £3.25m.

The Merthyr Tydfil-based development company is to seek planning permission for a £19m redevelopment that will replace the building with offices, shops and housing.

British Coal moved out of the building six months ago when the South Wales coalfield was downgraded from a region after the closure of most of its pits in the wake of the 1984-85 miners' strike.

Mr Peter Morgan, chairman of Oldway, said the site was a prime location for development in Cardiff. Within two years he expected a link to be opened with the M4 motorway a mile away.



UK NEWS

EC disclosure plan 'would damage small companies'

By Richard Waters

SMALL companies in the UK could suffer if the European Commission ended many reporting requirements for them, according to the Trade and Industry Department.

The department says in a consultative paper circulated among interested groups that the Commission proposes to do away with the requirement for small companies to be audited.

This would affect nine out of 10 UK companies, as well as many of the disclosure rules. The commission says these place an unnecessary burden on small companies.

Abolition would overturn the UK decision last year to retain audit, and could save small companies millions of pounds a year in audit fees.

But while the department agrees with the commission's aim of cutting burdens on small businesses, it says the proposals leave too little protection for those dealing with small companies.

It is concerned that other EC member states would take advantage of a plan to allow them to exempt closely held companies (small companies managed by their shareholders), from publishing accounts at all.

It fears some states would excuse these businesses from publishing information and that this "could cause problems for UK exporters and creditors who needed such information to assess the financial viability of the company with which they were planning to trade."

The department says the proposals would not succeed in reducing the burdens on small companies, as they would still have to produce much data for tax authorities. The only result would be less data for shareholders, creditors and others.

Other proposals would exempt small companies from filing accounts with the Companies Registry, instead requiring them to make accounts available only to people visiting their premises.

The amount of information they would have to publish would also be cut and directors' reports would be unnecessary.

The proposals are intended to cut the disclosure required by the fourth and seventh EC Directives which have harmonised companies' accounts across the EC.

The proposal to relieve small companies of audit is likely to reopen debate in the UK: after years of disjointed discussion, the Government said last summer it would not end the requirement in the next Companies Act. The EC proposals would take this decision out of member states' hands.

The plans have provoked strong reactions in the UK: Peat Marwick McLintock, the largest UK accountancy, has told the Government it should resist the changes.

● The European Commission, in a further proposed amendment to the directives, says companies of all sizes should be allowed to draw up accounts in Ecus, rather than their domestic currency.

● The DTI today launches a nationwide programme of briefings to strengthen small and medium-sized companies' management skills. Twenty-five regional briefings are planned for the next few months, aiming to reach about 5,000 senior managers.

The first will be hosted by JCB (J. C. Bamford Excavators) of Staffordshire. Boots and British Aerospace are planning others. About 200 local managers will attend.

The aim is to stimulate discussion of common problems.

The DTI hopes briefings will spread best-management practice more widely. The programme is sponsored by the Government's Enterprise Initiative and by Lloyds Bank.

Outflow of £231m from National Savings

By John Edwards

THE OUTFLOW of funds from National Savings continued last month. Withdrawals by savers exceeded new deposits by more than £231m, according to figures issued by the state-owned organisation.

Once again, the biggest withdrawals were from maturing, fixed-interest savings certificates. National Savings is paying only 5.01 per cent interest on savings certificates that have matured, so there is a considerable incentive to switch into other investments.

Some of the money is switched to other National Savings products, such as the Capital Bonds introduced in January. They have now taken in £84.7m.

Their main appeal is to non-taxpayers, because although they pay a guaranteed gross interest of 12 per cent over the next five years, taxpayers face paying tax in advance before they can cash in their investment five years from now.

Alternatively, taxpayers can switch to the current (34th) issue of savings certificates, which offer an interest rate of 7.5 per cent tax-free but also mean locking money away for five years.

Car and truck sales fuel 17% output rise

By Kevin Done, Motor Industry Correspondent

UK CAR production in the first two months of the year was 16.8 per cent higher than a year ago, at 225,734 compared with 193,236, according to provisional figures from the Department of Trade and Industry.

Output a year ago was restricted because of the loss of production from Ford's UK plants, which were closed by a two-week strike.

Commercial vehicle production in the first two months of the year was 41.4 per cent higher, at 57,367 against 40,565 a year ago, when output suffered with strikes at both Ford and Land Rover.

According to the DTI, car output in the six months to the end of February was 14 per cent higher on a seasonally adjusted basis than in the corresponding period a year earlier, while commercial vehicle output was 39 per cent higher.

UK vehicle output is being maintained by strong domestic car and commercial vehicle sales, both of which are running at record levels.

New car sales in the first two months of the year were 9.16 per cent higher that a year ago, while commercial vehicle sales jumped by 12.13 per cent.

UK new car sales from January 1 1989 passed 500,000 last Friday – a 9 per cent increase on the corresponding period a year ago, according to figures from the Society of Motor Manufacturers and Traders.

UK VEHICLE PRODUCTION

	1988	1987	% change 1988/87
CARS			
Total	1,226,835	1,143,045	+7.3
Rover (Incl.Range Rover)	474,687	471,504	+0.7
Ford	375,542	386,698	−2.9
Vauxhall	176,489	183,857	−4.0
Jaguar	51,939	48,020	+8.2
Peugeot	82,326	45,549	+80.7
Nissan	56,541	-	-
Rolls Royce	2,968	2,570	+15.5
Lotus	1,366	798	+71.2
COMMERCIAL VEHICLES			
Total	318,013	246,727	+28.9
Rover (incl.Land Rover)	45,612	36,746	+24.1
Ford	132,833	101,237	+31.2
Vauxhall	30,211	46,595	−35.2
DAF (including Leyland DAF and Freight Rover)	36,077	32,264	+11.8
Iveco Ford	16,519	14,805	+11.6
Renault Truck Industries	4,585	5,104	−10.2
AWD	5,979	1,821	+228.3
IBC	34,804	-	
ERF	4,258	2,983	+42.7
Seddon Atkinson	2,430	1,861	+30.6
Foden	1,669	829	+101.3

Source: Society of Motor Manufacturers and Traders

Mr Simon Foster, SMMT director, said the car market was unexpectedly buoyant after four record years.

"After years of lagging behind other European countries, our car ownership is catching up."

Rover Group, the subsidiary of British Aerospace, strengthened its position as the UK's leading car producer last year with car output (including Range Rover) rising slightly to 474,687 from 471,504 in 1987, according to SMMT figures.

Ford's UK car production fell by 2.9 per cent, partly under the impact of the February strike, to 375,542 from 386,698 a year earlier.

Ford's monthly production figures were lower than the corresponding month in 1987 in every month between February and September.

Vauxhall car output was also slightly lower, reflecting the disruption caused by the change-over to a new-generation Cavalier at its Luton assembly plant.

Output almost doubled to 82,326 at Peugeot's Ryton, Coventry, assembly plant, which began double-shift working in the spring, with the first full year's production of the Peugeot 405.

Output is also expanding steadily at Nissan's new car assembly plant at Sunderland. Output totalled 56,541 last year.

It is due to rise to 75,000 this year and is scheduled to reach an annual rate of 200,000 during 1992.

Overall UK car production increased last year by 7.3 per cent to 1.23m, the highest level since 1977, although it was still well below the peak of 1.92m reached in 1972.

At the same time UK commercial vehicle production last year was 29.2 per cent higher than a year earlier at 318,013 compared with 246,727 in 1987, the highest output achieved since 1980.

● The Government approved a substantial publicity campaign at the weekend to speed motorists' switch to unleaded petrol.

It was announced by Mrs Virginia Bottomley, the junior Environment Minister, at Brands Hatch circuit in Kent, where she awarded prizes to winners of a race for saloon cars running on unleaded fuel.

Book profits static as paperback prices rise

By Raymond Snoddy

PUBLISHERS are using dramatic price rises in mass market paperbacks to pass on increasing cost pressures in the industry, according to a study by Peat Marwick McLintock, the consultancy firm.

It says book prices between 1981 and 1987 rose by 71 per cent more than the retail index as a whole.

Even so, profit margins in book publishing and retailing have been static around 8 per cent, compared with the average 20 per cent for the economy as a whole.

Cost pressures are being relieved "by increases in the selling prices of paperbacks which have been absorbed by the marketplace much more easily then price increases for hardbacks and other categories."

The survey was commissioned by Somerset County Council, the Library Association and the BNB Research Fund.

Peat Marwick says production costs have risen as publishers increase the number of titles they issue in the search for best-sellers, and, meanwhile, libraries and schools are buying fewer books.

Between 1981 and 1987 the number of books sold increased by only 6.5 per cent while the number of new titles published increased by 38.9 per cent. The reduction in average print runs has inevitably influenced unit costs.

Mr Richard Paterson, Peat Marwick's partner in charge of publishing, said: "The evolution of book prices and its underlying causes will continue to foster the consolidation of the publishing industry with fewer but more powerful players which has been so evident over the past few years."

The same factors, he believes, are also contributing to growing strain on the Net Book Agreement, by which retailers mostly sell at prices recommended by publishers.

Critics of the agreement, such as Mr Terry Maher, chairman of Pentos, argue that it keeps book prices artificially high, thereby depressing sales.

Supporters, including most publishers, say the agreement helps to support the publication of a wider range of books and the survival of a larger number of bookshops.

Mr Maher has complained to the Office of Fair Trading about the agreement and the OFT is considering whether there are grounds for a reference to the Restrictive Practices Court.

Peat Marwick McLintock report on Book Prices. British Library Sales Unit, Boston Spa, Wetherby, West Yorkshire LS23 7BQ. (Price yet to be fixed.)

Cyclical indicators 'need to have more emphasis'

By Ralph Atkins, Economics Staff

GOVERNMENT statisticians hope the seldom noticed official cyclical indicators for the UK economy will be given a higher profile, if the Treasury approves.

Statisticians at the Central Statistical Office are to meet Sir Terence Burns, the Treasury's chief economic adviser, early next month to discuss proposals to revamp presentation of the monthly figures.

They want to convince him that the indicators, which are notorious for moving erratically, are beginning to show a consistent story. If Sir Terence agrees, the official interpretation accompanying the figures could be clearer and not as heavily qualified as at present.

The CSO publishes four indicators designed to highlight turning points in economic activity. The potentially most useful are the longer leading index, which should show turning points a year ahead, and the shorter leading index, looking six months ahead.

Since last year, both indicators have been falling steadily – suggesting that economic growth will slow down substantially during 1989.

However, the CSO has said only that they are "broadly consistent" with a slowdown and has emphasised that they are particularly subject to revision. It points out that even a cyclical peak in activity shown by the indicators early in 1985 has not yet been confirmed officially.

If the CSO is allowed to be more definite, it would help to support the Treasury's forecast of slower growth this year.

The cyclical indicators are compiled from a number of sources that are believed to either lead or lag economic growth. They include statistics on share prices, business optimism, housing, credit, profits, output and the labour market.

In the past two years, the indicators might have been distorted by the stock market crash of October 1987. CSO statisticians also believe an exceptionally buoyant economy might have distorted normal cyclical patterns.

CPS head protests to Bar

By Reymond Hughes, Law Courts Correspondent

MR ALLAN GREEN, QC, the Director of Public Prosecutions and head of the Crown Prosecution Service, has protested about comments about CPS lawyers in an advertisement issued by the Bar Council.

In a letter to Mr Desmond Fennell, QC, the Bar chairman, Mr Green records his dismay at "the unfair and inaccurate comments made . . . about the present and future role of CPS lawyers."

The two-page advertisement in The Times on Friday was part of the Bar Council's campaign against the proposals by Lord Mackay, the Lord Chancellor, for the reform of the legal profession.

The advertisement included the statement that the Government "proposes to give more business to state prosecutors who will only prosecute – even though this means criminals will stand a better chance of getting off . . ."

Mr Green said that the CPS had been created to provide a national prosecution service, independent of the police.

"That is precisely what it does. There is no basis for asserting that the use of 'state prosecutors' either does mean or will mean that 'criminals stand a better chance of getting off'."

UK NEWS

Thatcher seeks to reassure on health policy

By Philip Stephens and Michael Cassell

MRS MARGARET Thatcher, the Prime Minister, has acknowledged rising concern within the Government that opposition to its plans to reform the National Health Service has been a key factor in the recent sharp narrowing of its lead over the opposition Labour party in opinion polls.

Concerted attacks on the proposed changes prompted Mrs Thatcher to offer renewed assurances over weekend that the Government was determined to preserve the basic principle of a free NHS funded mainly from taxation.

Her comments, to the Conservative Council meeting at the northern resort of Scarborough, were followed yesterday by a poll showing the Government's lead over Labour had narrowed to 1 point, the smallest margin since the 1987 general election.

The Mori survey for the Sunday Times newspaper put the Conservatives at 41 per cent and Labour at 40 per cent. This appears to confirm that the NHS plans have emerged alongside high interest rates, inflation and the privatisation of the water industry as key concerns among the electorate.

The results will provide encouragement for Mr Neil Kinnock, the Labour leader, as he prepares to renew his attack on the Government's programme and to improve his party's own credibility as the party of alternative government.

In the first of a series of speeches intended to spell out Labour's economic strategy, Mr Kinnock will tonight embrace the mechanisms of the market but advocate positive intervention to make it work more fairly and efficiently.

Mrs Thatcher's Scarborough address contained the expected confident pledge that the Government would not be deterred by its downturn in popularity from pressing ahead with its programme of radical reform.

She went out of her way to praise Mr Nigel Lawson, the Chancellor of the Exchequer who presented his budget last week, and to underpin his commitment to keep interest rates high for as long as needed to control inflation.

Her decision to defend at length, however, both the planned overhaul of the NHS and the plans to privatise the water industry points to her concern that the Government has not been effective in promoting its programme.

Mr Kenneth Clarke, the Health Secretary, and his two junior ministers will embark next month on a tour of the country aimed at convincing doctors, nurses and voters that there are no plans to "privatise" the NHS.

Senior ministers said that private opinion polls had confirmed public anxiety over the NHS, while there was also concern that the planned reforms had become entangled with Mr Clarke's separate row with general practitioners over the introduction of a new contract.

Labour's renewed offensive meanwhile comes with its morale higher than at any time since 1987.

Tonight, Mr Gordon Brown, Labour's treasury spokesman, will round off his party's attack on the budget in the House of Commons, encouraged by polling evidence suggesting that voters are holding Mr Lawson responsible for the present economic problems.

Yesterday, Mr Roy Hattersley, Labour's deputy leader, described the budget as a "confidence trick" which was planned to prepare the way for pre-election tax cuts intended to obscure the Chancellor's mistakes.

Labour attacks will seek, among other things, to convert voters' immediate worries about the state of the economy into concern about Britain's longer-term ability to compete in world markets.

Labour accepts, however, that disenchantment with the Tories on a range of issues will not automatically translate into higher support for Labour, and Mrs Thatcher made clear at the weekend that she plans a *strong counter-attack* on the opposition's record.

So with the opposition party's two-year policy review entering its final stages, the task of winning trust for its alternative strategy will form a large part of Labour's campaign.

Planned cable TV curbs set to go

By Raymond Snoddy

THE GOVERNMENT is to abandon controversial proposals which would effectively have prevented the owners of cable television networks from selling programme services directly to consumers.

The separation of the ownership and retailing of cable suggested in the Government's White Paper (draft law) on broadcasting was designed to boost competition and prevent the creation of local monopolies.

Instead it threatened to turn off a potential flow of hundreds of millions of pounds from successful North American cable companies which were showing increasing interest in investing in the British cable industry.

In November, for instance, United Cable of Denver, was awarded three large British cable franchises designed to pass 700,000 homes at a cost of more than £150m.

United alone wants to make cable available to 2m homes in the UK. Yet it was among the US companies warning privately it would pull out unless the Government dropped its plans for separation.

US cable companies believe that their experience of selling cable services to consumers is one of the key features they can offer. They are reluctant to cede this experience to the new breed of local retailers envisaged by the Government.

The Government now plans to adopt a different route to create competition within local television services.

Cable network owners will be required to open a proportion of their capacity to local interests. Those wishing to run a local cable channel or specific programme service would be able to lease the necessary cable capacity.

The Government has still not decided if North American cable operators will be allowed to own UK networks.

Meeting set in university pay dispute

By David Thomas, Education Correspondent

BOTH sides in the university pay dispute will meet this week to consider their options now that the Association of University Teachers has refused to accept a pay offer of 6 per cent for 1989-90. The offer was described by the employers as final.

The AUT's governing council decided on Saturday to continue a boycott of examinations and to ballot its 30,000 members early in April.

Ms Diana Warwick, AUT general secretary, will formulate the ballot question this week, but she said last night that the union's members would be recommended to reject the offer unless it was improved.

AUT leaders will seek a meeting with the Committee of Vice Chancellors and Principals to press for an improved offer, before the ballot papers are sent out.

Much of the anger among delegates to the AUT council centred on their complaint that they had not received a pay increase in 1988-89. The vice chancellors deny this claim, but it suggests that the AUT may be particularly keen for the employers to make some further pay gesture for the current year.

Meanwhile, the vice chancellors are to meet on Wednesday to consider how to advise universities to lessen the impact of the exam boycott.

Brussels likely to approve Shorts loan

By William Dawkins in Brussels

THE EUROPEAN Commission is likely to approve the British Government's plans to make a £390m ($683m) bridging loan to Short Brothers this week, paving the way for the sale of the struggling state-owned aerospace group.

A full weekly meeting of the 17 Commissioners on Wednesday is almost certain to sanction the plan to provide the already heavily indebted Belfast company with a three-month loan at commercial rates of interest, say EC officials. The decision will come only weeks after Brussels cleared a DM3.9bn ($2.1bn) aid package to help Daimler-Benz, the West German car producer, buy a stake in the Messerschmitt-Bölkow-Blohm (MBB) aerospace group.

The effect of the Commission decision will be to confirm an end-of-June deadline for the sale to be agreed, because the loan simply allows the company to continue to operate over that period without being forced into liquidation. The main suitor is Bombardier, the Canadian aerospace and transport group, although a consortium led by GEC of Britain and Fokker of the Netherlands is also interested in acquiring Shorts.

Britain has yet to open talks with the Commission on any permanent debt write-off to be offered as part of a final takeover deal, although EC officials say that is only a matter of time. They expect such an application to come when the Government is nearer to finalising details of the sale.

If the controversy over last year's proposed write-off to assist the sale of Rover, the vehicle maker, to British Aerospace is a guide, a debt write-off application will be harder to clear through the Commission. Brussels cut 40 per cent off the £800m debt write-off the Government had planned for Rover.

The Shorts bridging loan will have taken less than a month to win Brussels' approval – unusually fast but also a reflection of the extensive informal talks which took place before the UK launched the application. The loan is considered state aid despite being at normal market rates because Shorts is so indebted that no commercial banker would consider lending to it. The loan will be convertible into equity.

Almost all industrial subsidies granted by EC Governments must be vetted by the Commission to ensure they do not accord unfair advantages to the beneficiaries. EC competition rules allow such subsidies when important common European interests are at stake, among other criteria.

Commission officials said their decision to allow the aid package to Shorts was guided by the strategic importance of the aircraft industry.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MANAGEMENT

Michael Montague became chairman of Valor, then a humble UK manufacturer of heaters and cookers, in 1965, after two years as managing director. Since then, Montague – a man to whom the adjective "humble" has rarely been applied – has not shared executive power at the top of the company.

That is about to change. With the company now transformed into Yale and Valor, an international locks and domestic appliances group valued by the stock market at £420m, Jeoff Samson will take over as group managing director early next month after six years as head of the General Electric Company's domestic appliances division.

The torch is not being passed. Montague remains executive chairman, and indeed, at 57, is three years younger than Samson. Yet Samson's arrival is an important milestone for Yale and Valor, signalling the changes which have accompanied its dramatic growth since 1987.

"I will be the builder; Michael is the architect. Both need each other," Samson says.

If it is true that every successful company eventually overshadows its creator, in this instance, the phenomenon has taken a long time.

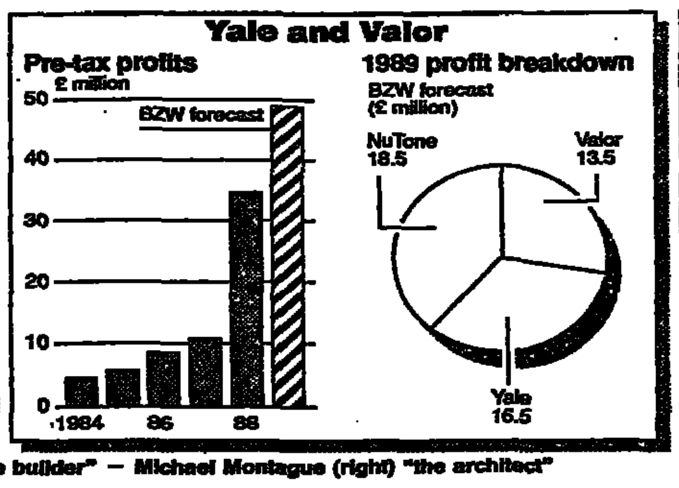
Montague's career has also illustrated the two-edged sword of directors' involvement in outside activities. Up to a point, on the premise that any publicity is good publicity, Valor benefited from Montague's high profile as chairman of, successively, the English Tourist Board and the National Consumer Council.

But to do those jobs effectively, *he had to get headlines.* It was not so much that Montague made enemies, more that his making controversial statements, in the line of duty, seemed to have made him into a controversial person.

For years, it did not matter. If the City saw Valor as a one-man band, well, that was about the size of it.

Everything changed in 1987, when Valor did a transatlantic deal that quadrupled its size at a stroke, buying Yale Security, the locks group, and NuTone, a leading US manufacturer of *built-in domestic appliances,* for \$460m (£285m) from Canadian-owned First City Industries. Almost all of the new business was in the US, a country of which Montague had no practical experience. But he knew a man who did.

Bob Olney had joined the Valor board as a non-executive director in July 1986, after patient courting by Montague. A 40-year veteran of the US diversified industrial and consumer products group, Minnesota Mining and Materials, Olney had been 3M's UK managing director since 1979.



Jeoff Samson (left): "I will be the builder" – Michael Montague (right) "the architect"

Yale and Valor: a double act kindling a secure flame

Clay Harris explains how a modest UK heating appliance manufacturer which made a significant leap into the US implanted its strategy into the enlarged group

In early 1986, Olney had decided to retire rather than be transferred back to the US. He submitted his name to Pro Ned, the body which promotes the appointment of non-executive directors at UK companies.

Shortly afterwards, Montague *went to Pro Ned in search* of a US director with experience of the reporting procedures and external communications of a large company. Olney fitted the bill exactly.

"Neither he nor I had the slightest idea we would be buying Yale and NuTone," Montague maintains. What they agreed was that Valor should get into the US.

"America is a natural market for a company of our ambitions," says Montague, who cites not only its size but its historical and cultural unity. *He dismisses the notion that* Europe will ever challenge the US as a single market except in statistical terms.

But how did Valor end up buying the much larger Yale and NuTone? Montague had identified security as a growth sector. The idea of manufacturing a security grill, the "Valor Vandal Beater," was dropped after discouraging market research, but Montague was struck by how often "Yale" had popped up as the leading name in security.

Montague approached Sam Belzberg, one of First City's Canadian controlling family, to see if Yale was for sale.

As Montague recalls, Belzberg replied: "Why does everyone want to buy Yale and nobody want to buy NuTone?" Montague, who had not heard of NuTone, had no answer.

But once again, almost by chance, Olney played a key role. "The first thing Bob knew about it was when he came into my office, where there was a NuTone catalogue on the desk," Montague says. "He saw me looking at it and asked me, 'What are you doing with that? That's one of the most famous companies in America.'" This encouraged Montague to pursue what, for Belzberg, was a both-or-nothing proposition.

In March 1987, Montague sent Olney to the US to see if the acquisition was practical. After a favourable report, Olney recounts, "he said: 'my big problem is how we're going to manage it,' and I said: 'I'll manage it for you.'" It had never been planned for Olney to take an executive role, but that "became a practical solution to the problem." He still spends more than half the year in the UK, however.

Olney's first duty was to help Montague convince the City that Valor could digest and manage its acquisition. The double act worked. A £265m share issue was priced at the highest Valor had ever traded; shareholders applied for 45 per cent of the issue, a respectable result in the waning days of the bull market.

Now 62, Olney is chairman of Yale and NuTone, the Cincinnati-based holding company for US operations. The subsidiary has its own board, with US non-executive directors including Joseph Kuhn, a former colleague of Olney's at 3M.

By mid-1987, when Valor came in, Yale and NuTone managers had seen three owners in less than three years. First City had bought Scovill, Yale and NuTone's parent, in 1985 and was gradually breaking it up at a huge profit. Divisional managements reported to accountants who seemed to have no interest in the underlying businesses. They were frustrated by being starved of funds, according to Olney.

It takes time, however, to change expectations. Acquisitions, although modest compared with the initial deal, help to get the message across that the UK parent is looking for long-term growth, not only for short-term cash flow. Such deals have extended Yale's range of automatic door closers and added a manufacturer of electronic hinges.

The purchase of Miami-Carey, a manufacturer of bathroom cabinets and cooker hoods, took NuTone, which had traditionally sold direct to builders for installation in new homes, into the retrofit and DIY markets. Manufacturing has been rationalised and two of Miami-Carey's three factories closed.

The US non-executives play more than a superficial role. Kuhn, *for example,* went around factories and advised on how to achieve lower costs. In overall management terms, however, the US board is less important than the two executive committees, a post-acquisition innovation, which report directly to the main board.

One oversees gas appliances, water heaters and catering equipment – the old Valor companies. So far, these are mostly in the UK. The other supervises locks and security systems and domestic appliances, the Yale and NuTone companies. These are heavily biased towards the US, but there is more diversity because of Yale's worldwide spread.

Each committee meets once a month, four days before the main board meeting. After the executive meetings, minutes are faxed to non-executive directors. Until now, Montague has chaired both committees. When Samson joins, he will take over this role.

The formality of the structure contrasts starkly with the way Valor was run in the previous two decades, largely by Montague himself. The most important supporting role was played by Norman Davis, an accountant who acted as finance director for most of his 18 years on the board, even though officially he was non-executive. Davis also handled the detailed negotiation of many of its deals, including the purchase of Yale and NuTone.

The close relationship fell apart in the summer of 1987, however, after the US deal was sealed, and Davis resigned in May 1988.

Montague's reputation as a one-man band may have been exaggerated in any case. He has no doubt about the special role of chairman: "There's only one man who stands up at the AGM." But divisional management should be left to get on with business.

"The line between delegation and abdication is always a difficult one to define," he says, "but management has to feel that it's got close to total *authority and sovereignty,* and that it's not dependent on you."

Moreover, despite his formidable reputation, Montague reserves his greatest scorn for the "sycophant" and "lackey". Samson is unlikely to offend on either score, and he brings a record of successfully aggressive marketing from GEC.

Under his tenure at GEC, Hotpoint – boosted by the acquisition of Creda from TI Group in 1987 – increased its UK market shares to 40 per cent in washing machines, 60 *per cent in tumble dryers and* 22 per cent in dishwashers.

Samson is an avid advocate of making brands work hard and protecting them against own-brand encroachment. Introducing Yale into the group's name was a "master stroke," he says, but the task now is to identify the company's other brands – such as NuTone, Dreamland electric blankets, Breville toaster ovens and Heatrae Sadia water heaters – with the group.

Montague, however, thinks it would be "missing a trick" to look only at Samson's marketing experience. Before GEC, Samson was director of telecommunications at STC. "I think what he brought to Hotpoint was his contemporary technical knowledge," says Montague, who is looking for more of the same at Yale and Valor.

Now polytechnics mean business

David Thomas examines Leicester's pioneering approach

The powers that be at Leicester Polytechnic went in for a bridge-building exercise this month which, only a few years ago, would have been unthinkable in this once dowdy sector of higher education.

They traipsed down to London, where they hired an imposing room at the Institute of Directors headquarters and invited all and sundry to listen to their plans for the future.

These plans, as outlined by Kenneth Barker, Leicester's director, were consciously couched in the language of business. Barker set out the four key objectives of his senior management team.

First, to meet clear financial targets by turning the polytechnic's schools into profit centres. Second, to maintain quality control of its products, teaching and research, amid the price war he foresaw in the polytechnics. Third, to develop sound research and other links with strategic local industries such as textiles. Last, to play its part in developing Leicester's inner city.

Polytechnic directors like Barker are projecting themselves increasingly as chief executives of medium-sized businesses (Leicester's turnover last year was £26m), as many factors have prodded them to model the management of polytechnics on that of business.

That this is no flash in the pan looks clear from a discussion paper from the Polytechnics and Colleges Funding Council (PCFC), a new body which is taking charge of distributing more than £1bn a year to 80 polytechnics and colleges.

This document is remarkable for being the first attempt at a funding mechanism designed to ape the market in higher education and thereby to maintain the impetus behind the sort of managerial changes being introduced in Leicester. "The most important single influence on the allocation of funding ought . . to be well-informed student demand," it says.

The centrepiece of the new mechanism would be a system of annual competitive bids by colleges for money to put on courses. The document sets out four different options for this system, under which colleges might bid for:

- the numbers of students they wished to enrol, with the price per student being set by the PCFC only after the bids were in.
- both student numbers and prices, a procedure which the PCFC likens to normal commercial tendering.
- funding on the basis of an institutional plan, a model similar to "a commercial enterprise approaching a merchant bank for financial support," according to the PCFC.
- incremental funding after colleges had been guaranteed a proportion of their funds, a system which would focus their attention on attracting the marginal student.

Each of these options has its strengths and weaknesses, but the PCFC insists that all would serve to decentralise decisions. "The whole thrust is for us to put more decisions into the hands of institutions," explains Roger McClure, the council's director of finance.

If the council remains true to its word, it will be one of the few occasions of a centralised planning body in the public sector ever voluntarily surrendering control over management decisions.

The document leaves the council with plenty of scope to override the market signals flowing from student preferences. It mentions the quality of courses and national priorities, such as the Government's support for engineering provision, as two factors which the council might have to invoke when reaching decisions.

Moreover, the results of the bids are to be translated into contracts between each college and the PCFC, with penalty clauses for a college failing to keep to the bargain.

The new mechanism, in the right hands, could give a major boost to the entrepreneurial culture now taking a grip of polytechnics like Leicester. In the wrong hands, it could turn into a means of dressing up old-fashioned public sector planning in the trendy language of consumer choice.

Funding Choices. PCFC, Metropolis House, 22 Percy Street, London W1P 9FF.

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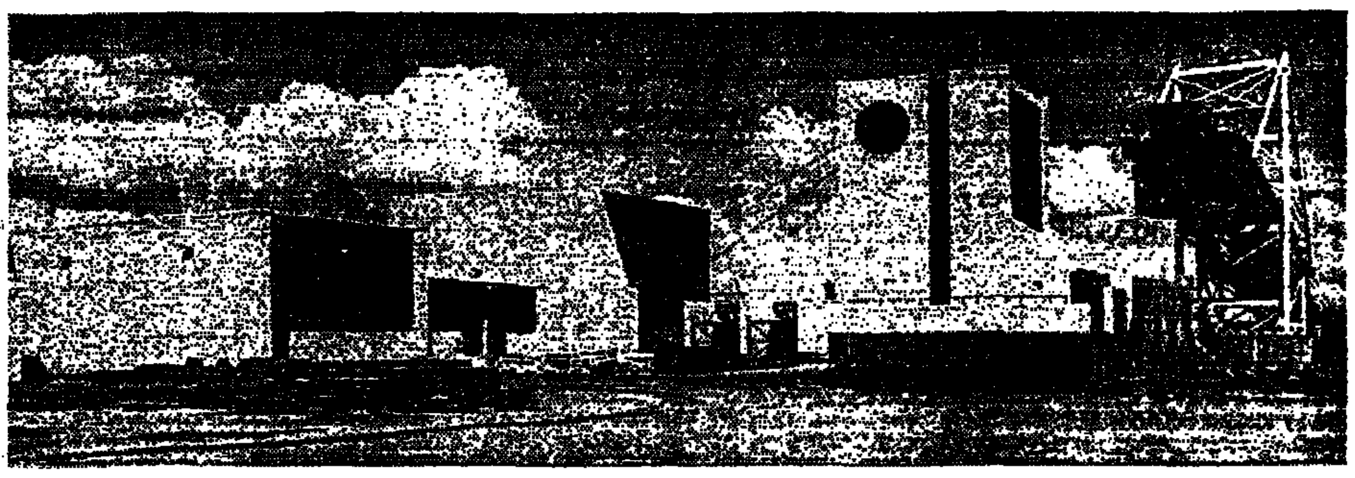


Wistow colliery, one of the pits in the £1.3bn Selby project, in North Yorkshire

Modern Coal Mining

CONTENTS

Since the oil crises of the 1970s there has been a surge of new coal mining on a world-wide scale, writes **Maurice Samuelson**. It is marked by large-scale investment, technological innovation, tough *competition between producers*, and concern for the environment.

The old king fights back

IN THE days when it was frequently dismissed as "old King Coal", there was a widespread presumption that the coal industry's days were numbered. As the fuel for the steam engines of the Industrial Revolution, coal had played a creditable part, but it was now a thing of the past.

By the middle of the 20th century it was being squeezed out of its biggest markets, the power stations and the railways which were being converted wholesale to oil.

The new fuel was cheaper, and, although it had to travel by sea and pipeline to its end-users, it was seen as more convenient and cleaner to use. It also lacked the political problems associated with a notoriously militant labour-force. Nuclear power, regarded as even more attractive for electricity production, was also on the increase, and natural gas invaded the heating market.

Throughout the 1960s, some of the world's proudest coal industries were cut to ribbons. Between 1961 and 1971, some 400 collieries were closed in Britain, and some 300,000 miners sought alternative employment. In the developed countries, coal's decline was regarded as irreversible.

Then came the dramas of the *1970s* and the oil-price explosions which rocked the world. Overnight, power utilities that had switched from coal were clamouring to return to it, and began a wholesale re-conversion of their generating capacity. Coal was also benefiting from the electrification of many railway systems, replacing diesel locomotives.

Coal's great attraction was its sheer abundance, compared with the growing scarcity of oil that had triggered off the oil-price explosions. Unlike oil, most of which was in the unstable Middle East, coal was present in many parts of the world, and its production was less subject to the whims of mercurial politicians. Most reserves were also in the territory where the coal was needed, though sizable quantities were available for energy-hungry countries which lacked large reserves of their own.

Billions of pounds were poured into new mining ventures, often by international oil companies, dismayed by the sudden loss of their lucrative power-station fuel oil sales. Many of the new mines were *opencast*, to exploit shallow seams, whose easy geology made up for their difficult geography – although far from their markets, their coal was close to the surface and could be mined cheaply.

Where the seams lay too deep for surface stripping, ambitious new underground projects were developed to reduce overall costs. One of the most spectacular is Britain's £1.3bn Selby project in North Yorkshire, destined to produce more than 10 per cent of the country's coal needs over 30 or more years from a coalfield the size of the Isle of Wight. It is already the country's most efficient deep-mined operation, with efficiency levels approaching those of US mines.

In the decade and a half since 1973, however, coal industries have experienced setbacks as well as breakthroughs. The long-range demand projections used for many of the new investments proved to be wildly exaggerated. They failed to predict the depth and duration of the economic recession which followed the second oil shock of 1979, and its depressing effect on electricity demand.

In the second half of the 1980s, coal producers were also stunned by plummeting oil prices, and many new mines were unable to repay the cost of their capital charges. Increasingly, producers have found themselves competing with each other, rather than against rival fuels. Prices are now rising again. But, more recently, the industry has been aware of growing public and political sensitivity about the effect of fossil-fuel burning on plant life and the atmosphere.

Nevertheless, the momentum of 1973 is still strong, and the year is recognised as having been a watershed in coal industry history. One international coal trader says it heralded the beginning of a "second coal age".

It is symbolised by the scale of new investments, their widespread distribution, the sharpening competition between the various producers (old and new), the rush for more efficient mining methods and technologies, as well as advances in ways of transporting and burning coal.

On the commercial front, the world has seen the emergence of an international sea-borne trade in power-station coal, alongside that already established in the more specialised coking coals for the steel industry.

The sea-borne shipments of both categories of coal – 340m tonnes in 1987 – are still only 7 per cent of the world's total hard coal sales. But they represent a new intensity of competition between producers in the new and the older coal industries. The biggest additions to capacity are taking shape in China, India, North and Central America, Australia, South Africa and Indonesia.

In China (now the world's biggest producer), India and the Soviet Union, expansion of output is intended primarily to assist national industrial development. But China would also like to sell some of its coal for foreign currency, to help finance its industrialisation. Whether it succeeds, depends on whether it can meet its own needs and can iron out logistical problems in transporting coal over long distances.

In Australia, Colombia and Venezuela, new mines are dedicated to the export market. Those in the US are mainly for the domestic electricity market, but can easily channel surplus tonnages on to the world market.

In the older coal-producing countries, the emphasis has been on cost reduction, to compete with imports or to exclude them by internal subsidies.

British Coal, the non-communist world's biggest coal utility, tries to confront the competition head on by drastic restructuring. It has achieved a 75 per cent boost in productivity in the past four years through closure of high-cost capacity, and by streamlining the remainder with more job-cuts, and investment in sophisticated equipment and more flexible procedures, such as retreat mining.

It now strives to become, in the phrase coined by Mr Cecil Parkinson, Energy Secretary, the "supplier of choice" to an electricity industry on the brink of privatisation. The electricity industry says that, unless British Coal prices are further reduced, it will use less British coal than in the past, and could also make greater use of its largely unused oil-fired power stations and new gas turbines.

To counter these threats, British Coal is intensifying its re-structuring programme. With world coal prices having risen by 30 per cent in the past 12 months, it says it will be able to guarantee long-term bulk contracts based on the sustainable world price of coal, thus ensuring long-range security both for itself and the electricity consumer.

Its underlying progress is obscured by its long-term interest repayments, which will this year turn an operating profit of some £450m into a bottom-line loss of £100m. But its progress will be more apparent as soon as the Government writes down these long-term debts, as it did before privatising the steel industry. The financial reconstruction of coal, expected in a year or two, will also be influenced by the Government's longer-term plans that it should follow steel and electricity into the private sector.

Meanwhile, it is instructive to compare British Coal's position with those of its sister industries in continental Europe. In 1986, government subsidies to British Coal amounted to $1.85 per tonne of output. In West Germany, France and Belgium, government subsidies ran at $28.51, $32.20 and $40.62 per tonne respectively.

Another feature of the new coal age is the proliferation of advanced mining methods and equipment, and the transfer of underground technology from the older coal countries to the new. Longwall mining methods, pioneered in Britain and Germany, are being introduced into new collieries in Australia and the US. British expertise is being transferred to China, India and other third-world states through British Mining Consultants, a British Coal-sponsored body. The Russians, Germans and Americans are also involved in overseas mining ventures.

The exchanges are not all in one direction. Engineers in Europe, for example, have a healthy respect for the experience and skill of Chinese mining engineers, who frequently contribute learned papers to international organisations. And British engineers are trying to assimilate the experience of Australians, Americans and others in such areas as roof-bolting.

But, for all the changes, coal mining is also an industry of continuity and tradition. In some of the small, profitable private mines in Britain, for example, one can see methods and types of machinery that were common at the beginning of the century.

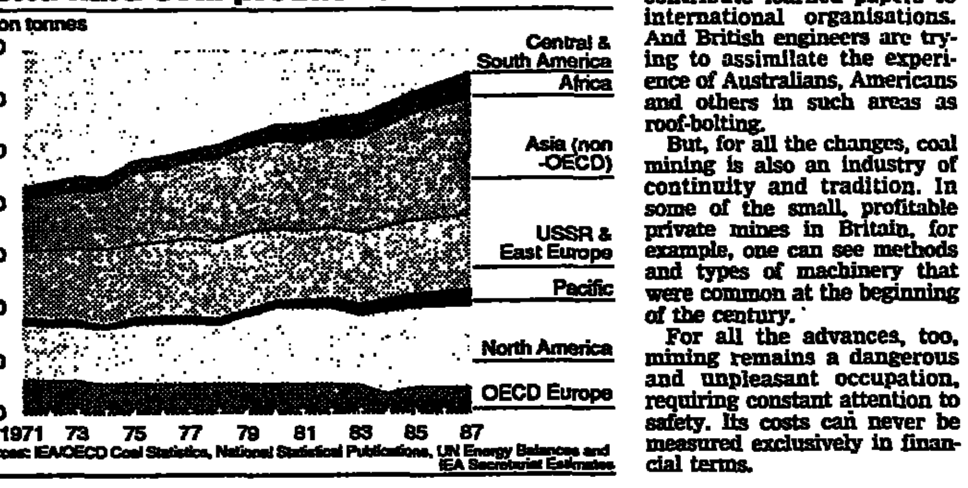
For all the advances, too, mining remains a dangerous and unpleasant occupation, requiring constant attention to safety. Its costs can never be measured exclusively in financial terms.

Major producers (m tonnes)

	1973	1987
China	417	870
US	530	761
USSR	461	516
Poland	156	193
India	78	177
S Africa	62	176
Australia	55	147
UK	132	104
W Germany	103	82
N Korea	30	38
Czechoslovakia	27	25
World	2,201	3,282

Source: International Energy Agency

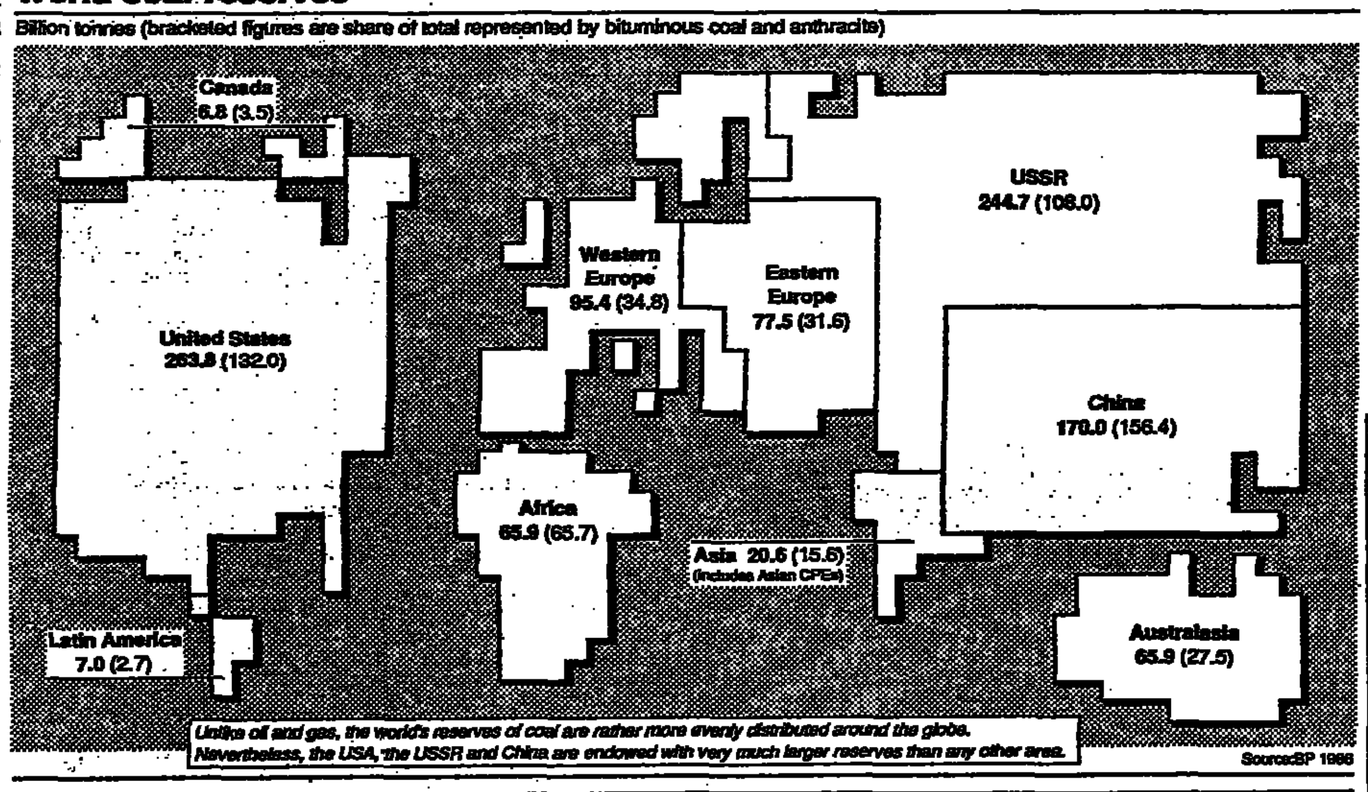
World hard coal production



Sources: IEA/OECD Coal Statistics, National Statistical Publications, UN Energy Balances and IEA Secretariat Estimates

World coal reserves

Billion tonnes (bracketed figures are share of total represented by bituminous coal and anthracite)



Unlike oil and gas, the world's reserves of coal are rather more evenly distributed around the globe. Nevertheless, the USA, the USSR and China are endowed with very much larger reserves than any other area.

Source: BP 1988

The industry in Australia has parallels with that in the UK

Top of the exporting league

AUSTRALIA and Britain may be poles apart geographically, but as leading coal producers they display antipodean differences laced with uncanny similarities.

The comparisons, a product of history as well as of geography, embrace the whole spectrum of problems faced by their coal industries – in international markets, mining practices, labour relations, and political status.

On the eve of the first world war, Britain was the world's biggest coal exporter, with sales of 100m tonnes a year. Today that crown is held by Australia, which, although only the world's seventh producer, exports the same amount as Britain did before 1914, while modern Britain has become a marginal net importer.

The proverbial advice against "carrying coals to Newcastle" is more meaningful when applied to the port in New South Wales, one of Australia's biggest coal outlets, rather than its older namesake on the Tyne.

While British Coal's prosperity depends on its ability to stave off imports, some 70 per cent of Australia's coal is sold on the world market, mainly in the Pacific but also as far away as Europe – and in Britain itself.

Britain has been digging coal for so long that most of its shallow reserves are exhausted, and its present underground mines, producing about 85m tonnes a year, are among the deepest in the world. It would like to produce more from the remaining shallow reserves than the present 15m tonnes, but is boxed in by population density and environmental restrictions.

Australia's exports come mainly, but not exclusively, from its big surface mines, developed in the aftermath of the 1970s oil price explosions, with the minimum environmental constraints. But, as the shallower reserves are whittled away, underground methods are becoming more economical. Some of the best performances are now from mines such as the Ulan mine, near Mudgee in New South Wales, Australia's most productive longwall face.

To cut overall prices, Britain has shut more than half its deep mines in five years and nearly doubled productivity from the remainder by using more powerful machines and greater *flexibility* in manning practices.

The Australians, worried about competition from other exporters – South Africa, the US and newcomers in Latin America and China – have pursued the same policy, closing uneconomic capacity, cutting manpower, installing high-productivity equipment, and insisting on more flexible shift systems.

Underground, some of the best results are now achieved in mines adapted to the longwall operations, of which there are now more than 20 in Australia.

Most, like Ulan, are equipped with British-designed Dowty roof-supports and armoured face conveyors, Britain's Anderson-Strathclyde supplies many of the shearers, together with Eickhoff of Germany and Mitsui Miike of Japan.

Another world-beating deep mine is at Gemson Creek, Queensland, in which British Coal has a significant minority shareholding.

In labour relations, too, there are similarities and contrasts. The Australian workforce is highly unionised, with a strong streak of left-wing militancy in New South Wales. Unlike Britain, the Australian union represents men in the powerful opencast sector as well as underground.

Last year, the independent Australian Coal Industry Tribunal recommended the unions to accept new working arrangements aimed at making more productive use of expensive capital equipment and new technologies. The package would also ensure much higher wages for Australian miners than those paid in some other, newly emerging coal producing countries.

In urging acceptance, both owners and moderate union leaders repeatedly cited the aftermath of the 1984-5 British strike as an example of counter-productive obstinacy in the face of relentless market forces. The implication was clear: if it blocked the reforms, the Australian workforce would go the way of Britain's, which had been slashed from 207,000 to 87,000 in the past seven years and with no visible end to the "slaughter".

The whole debate – and the resistance initially encountered – is strongly reminiscent of British Coal's recent efforts to obtain union pledges of six-day production. The difference is that the Australians want it in existing collieries – for the time being, it is mooted in Britain only for new mines.

In Britain, six-day working has been approved by the Union of Democratic Mineworkers, but is still officially anathema *to its bigger rival, the National Union* of Mineworkers. The Australian unions reluctantly accepted the package. But militancy and strikes still plague individual pits.

The biggest contrast surrounds the two industries' fiscal framework. In Australia, where coal has become the biggest export commodity, the state authorities levy a sizable economic rent in the form of rail freight charges. The coal companies complain that, like unrealistically high wage settlements, these "royalties" should be restrained if they are to keep their export markets.

In Britain, the coal industry has long been a recipient, rather than a generator, of government funds. But it now makes a colossal operating profit, and it is only a matter of time before a write-down of its debts make it a respectable tax-paying concern.

At the same time, it is fighting to retain its business with its biggest customer, the electricity industry, which threatens to diversify its fuel-burn as soon as it has been privatised.

There is a widespread assumption in Britain that large tonnages of Australian coal are likely to enter this breach in the UK energy market. But it means little in Australia, whose pits are geared mainly to supplying power stations and steelworks in Asia.

Although some increase in steam coal sales to Britain is not ruled out, few mining officials in Queensland and New South Wales expect to win large-scale base-load orders. Their scepticism is founded on the long distances between the two countries, the impressive cost reductions achieved by British Coal to maintain its home market, and the historic protection enjoyed by British Coal.

The final contrast is in the industries' status and structure. Nationalised 42 years ago, British Coal would be privatised, and possibly broken up, if the Conservative Party retained power after the next election.

Australia's coal industry is already fragmented and, for the most part, is in private hands with large shareholdings by overseas interests.

There is no prospect of coal's being nationalised, despite the presence of Mr Bob Hawke's Labor government. But Australian miners' leaders argue that the mines should be controlled by central government, to protect them from the notorious ups and downs in the coal market.

These calls are distant echoes of those heard 50 years ago in Britain. It is paradoxical that they should be sounded at the very time that Britain's coal industry is now being pushed in the opposite direction.

Maurice Samuelson

AS AN extractive industry, coal mining is continually moving from old reserves of coal into new: older pits close, new ones take their place.

In Britain, however, there is a yawning gap between new units and old. In the past five years nearly 100 collieries have been closed, but only a handful are planned. For the most part, national output is to be maintained by extending the remaining collieries, adopting new working methods, such as retreat mining, and installing heavy-duty equipment.

The new collieries consist of the £1.3bn Selby complex in North Yorkshire, the two £500m "superpits" planned in the Midlands, and a £100m project in South Wales.

Selby, consisting of five production collieries and a single disposal outlet, is well on the way to completion. It will produce 11m tonnes a year, compared with British Coal's current total deep-mined output of 83m tonnes a year.

Asfordby, the first Midlands "superpit", is still at the construction stage – its surface workings are well advanced, and its two shafts are close to completion. The next stage would be to drive the main underground roadways.

The other Midlands superpit – at Hawkhurst Moor, on the eastern fringe of Coventry – is still on the drawing board. Whether it will be built depends on the outcome of the planning inquiry that began in January, and on government policy.

British Coal wants to start work on its third "superpit", at Margam, in south Wales, within the next few weeks. Designed as a £100m drift-mine, it is intended to extract Europe's last big deposit of prime coking coal for the British steel industry.

However, the project has been frequently aborted since it was first mooted nearly 20 years ago, and there is no guarantee that unforeseen last-minute difficulties will not reappear this time.

The experience at Selby, possibly the most ambitious capital investment project undertaken in Britain, illustrates the geological risk inherent in all mining ventures, and the constant need for innovation and flexibility to match unforeseen problems to absorb changing technologies.

The Selby complex in Yorkshire shows the need for innovation, reports Maurice Samuelson

On target despite geological setbacks

The project, authorised in 1978, was for five deep mines producing 2m tonnes a year each, with two drift outlets at Gascoigne Wood each capable of conveying 10m tonnes of salable coal a year from those mines.

But it has encountered a series of misfortunes, mostly stemming from adverse geological features not revealed in the original exploration of the coalfield. These are being tackled in the course of development by various modifications. Nevertheless, the project is on target for completion in 1991-92, and is at present £80m below its budgeted cost.

Its coal, destined for the nearby Aire Valley power stations, was originally to be produced from four retreat faces per colliery, working two machine shifts a day. The five mines would feed their coal into two 15km spinal conveyors, which reach the surface along inclined drift tunnels at Gascoigne Wood.

There the coal passes through a 300-metre "coal shed", the biggest single span building in Europe, from where it is conveyed to merry go round trains departing every half an hour.

In order to control costs, badly hit by underground flooding and other geological problems, there has been a major alteration in lay-out. Instead of the spinal tunnels extending the whole length of the coalfield, they are to be shortened by nearly 3,000m, and the coal from the furthermost colliery, North Selby, will be fed through other access tunnels.

There are also changes in the working routine – four of the collieries will now work two retreat faces on a three-shift basis, rather than two shifts on four coal faces.

A different system altogether has been introduced at Wistow, the colliery nearest to the Gascoigne Wood disposal point, where a serious inrush of water led to the use of a mining method called "short single entry face mining". Unlike the longwalls of most British mines, the Wistow faces have only one entry point, and are as short as 15-35m, compared with the typical longwall of 200m.

Other changes are introduced to assure the lower dirt content in the coal demanded by the electricity industry. Screening and washing equipment has been installed in the "shed" at Gascoigne Wood, and at the coal faces the coal is being cut by machines with automatic steering devices which avoid the dirt embedded in the seams.

Roof-bolting techniques have also been developed, to improve support to the roadways and which, in the long term, should also cut the amount of dirt created by repair work.

Mr Albert Tuke, British Coal's North Yorkshire area director, who is in charge of the Selby project, summarises its results so far as "encouraging and disappointing".

His main disappointments stem from the failure of the initial seismic exploration to reveal the degree of faulting throughout the 110-square-mile coalfield, as well as other geological features which tend to determine the layout for coal extraction.

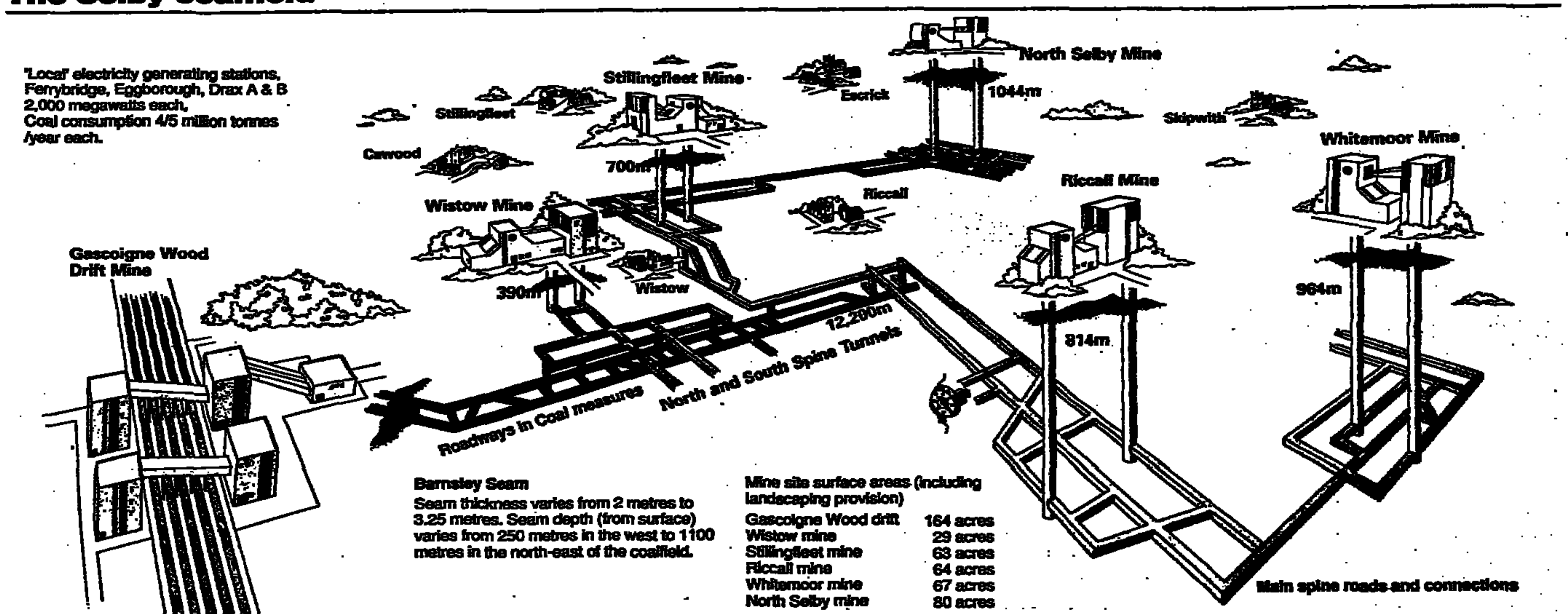
These dictated the changes in the original production plans which, on several occasions, have seriously disrupted or curtailed mining operations. They were also responsible for the excessive dirt in the coal which hit the Selby project's proceeds.

Nevertheless, says Mr Tuke, Selby's overall performance remains encouraging. Despite the problems, its productivity rate this year has been more than 8 tonnes of coal per man shift (OMS). At times it has exceeded 13 tonnes OMS, and one of the collieries, Stillingfleet, last June achieved more than 26 tonnes.

Big advances in mining technology had also been achieved:

- ■ The spinal conveyors, supplied by Anderson Strathclyde and Cable Belt, were running for distances of more than 12km at an average gradient of 1-in-20;
- ■ Free-steered vehicles were in use to develop roadways;
- ■ At Wistow, a single entry face had achieved a productivity of 254 tonnes per manshift;
- ■ Roof bolting had been established as a safe, total means of roadway support in certain circumstances, rather than just as additional support;
- ■ The use of heavy-duty supports had been proved in difficult strata and great depths, and
- ■ Automatic steering had been introduced on face cutting machines.

The Selby coalfield



A UK OVERVIEW

Much to teach and learn

WITH HIS 46 years in coal mining, John Northard, British Coal's deputy chairman, enjoys a panoramic view of the changes which have engulfed his industry during his working life-time – from pick and shovel to heavy-duty shearers, from pit pony to the free-steered vehicle, *writes Maurice Samuelson.*

As the Corporation's operations director, the quiet-spoken Yorkshireman is its senior tactician and monitors the daily impact of these changes on its performance.

Ken Moses, his more outspoken Lancastrian colleague, is several years younger but is still a veteran in the country's most youthful industry – its miners' average age is 34.

As the industry's technical director Moses is the Corporation's strategist in charge of major new investments, and its large technical laboratories and workshops.

Both men rose to the Corporation's main Board in the aftermath of the 1984-5 strike in which, as coalfield directors, they had played a notable part in pressing home the management's point of view.

Both are keenly aware of how much British mining can teach other countries, and of how much it can learn from abroad.

"When I entered the industry in 1943," Northard recalls, "only one mine in the country had a conveyor belt to remove the coal."

In his first years, the men had to throw the coal on to tubs, which had to be manhandled for 200 yards before being wound towards the shaft bottom.

Later in his career, Northard had to cope with the difficulties caused by removing the pit ponies, which played a vital part in carrying heavy materials below ground.

That followed a concerted campaign by animal lovers, despite claims by miners that they were cared for very humanely and that it would make their own jobs much more difficult.

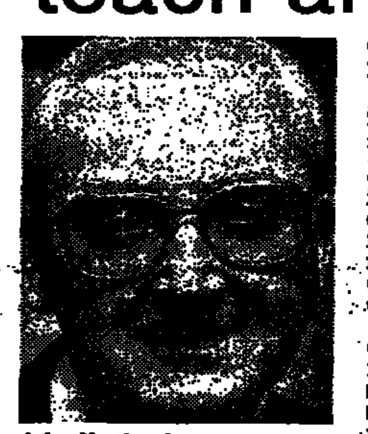
At Rawdon colliery, Leicestershire, where Northard was manager, the men complained that Northard had "taken out the ponies and put in the asses" – a reference to themselves.

Thereafter, Northard was in the forefront of trying to develop substitutes for the pony as a means of underground haulage. The final outcome were the free-steered vehicles, of which British Coal now boasts about 400 throughout the industry.

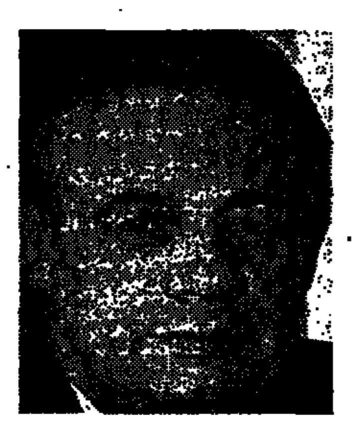
One of the main areas for improvement now, he says, is in speed of tunnelling new faces to keep up with fast retreat mining. In contrast with an advancing face, in which the side roadways are developed as the longwall moves forward, the roads are developed first and the longwall moves back along them.

Northard attributes the difficulties in equal part to machinery and organisation. "In the US and Australia; however, they do in one shift what takes us three weeks", he says.

Taking a broader view, his colleague, Ken Moses, says the biggest savings in capital investment would be a faster way of sinking new shafts and



John Northard



Ken Moses

developing the main underground drivages. At the new Asfordby super-pit, for example, it has accounted for much of the £100m. of up-front capital spent on its initial development over the past four years.

Four years were also being allowed to sink the shafts at Hawkhurst Moor, the second Midlands super-pit. "If that could be achieved in 12 months it would give a major saving in capital," he says. Metal mining industries had sunk shafts much faster, although unlike coal mining they rarely had to contend with heavy flooding.

In other respects, British coal mining had played a pioneering role. They included:

- ■ Seismological exploration;
- ■ Long-wall mining and equipment;
- ■ Flame-proof conveyor belting; and
- ■ advanced machine maintenance.

The use of seismology was a spin-off of the oil industry boom of the 1970s, when oil exploration and drilling techniques were adapted to coal prospecting. However, seismic surveys were still unable to reveal faults less than seven metres thick and more than one mile deep.

Horizontal seismic probes were also being used below ground, to explore for coal up to 1,000 metres away.

In "winning the mineral", says Moses, Britain was "arguably the world leaders" in long-wall mining. It was "on the back of our experience", he adds, that British manufacturers had such a big slice of the international market for long-wall equipment.

In this system, pioneered in England and Germany in the last century, twin roadways are driven on either side of the panel of coal which is to be mined. The coal-face is developed in a passage connecting the roadways, and the coal is extracted by a mobile shearer shuttling back and forth like a bacon slicer.

The coal is swept away to one of the roadways by an armoured conveyor and as the face retreats powered roof supports move forward to hold up the roof.

Nine or 10 miners are currently employed on a longwall face but by greater integration between the key components of the face, the industry is slowly moving to a stage where, in 10 to 20 years, a standard face will need only two or three operators.

"That might seem slow progress but remember that it was not until 1976 that the first shearing machine was steered automatically along the coal face to distinguish between coal and dirt.

"But there will soon be automatic steering on 50 out of about 230 coal faces and on half those where it is practical by the end of 1990."

Moses is particularly proud of British Coal's pioneering role in the art of "predictive maintenance".

He defines this as developing machines which warn the operator of an impending breakdown and give time for corrective action.

The techniques include analysing the gear oils of heavy duty machines for signs of metal wear or the entrapment of gases in transformer oils.

British coal's experience in this field was now benefitting other industries, including Fords at Dagenham.

ASFORDBY

Roadways like the Tube

BRITISH COAL will shortly have to decide whether to proceed with the next stage of its £400m Asfordby super-pit, in the north-east Leicestershire coalfield.

Thanks to an agreement with the Union of Democratic Mineworkers on six-day production, the pit will produce 3m tonnes of coal a year, making it one of the leading mines in Europe.

Thanks, as well, to the use of heavy-duty equipment and other features, Mr Len Harris, Nottinghamshire area director in charge of the Asfordby project, looks forward to productivity levels of 14 tonnes per man-shift (OMS), the highest in the country.

At present, the contractors are completing Asfordby's two shafts and associated surface works. When the shaft bottoms are coupled together, the Corporation will consider whether to let the contracts for its underground roadways.

There is some uncertainty as to how soon this work will be carried out, not least because of the difficulties anticipated by British Coal after the privatisation of the electricity industry, its leading customer.

Site work started in August 1984, with the first access roads into the site and shaft sinking began a year later. The eight year project is now therefore at its half way stage and expenditure of £124m. has so far been authorised, of which £100m. has been spent.

On the surface, roads have been built and electricity and town water have been provided. Cooling and process water are brought in via a 18km pipeline from the River Soar.

Asfordby's most distinctive features will be its main arterial roadways, which will be more reminiscent of the London Underground than those normally associated with British coalmines. The roadways will be sheathed in tubular sections of reinforced concrete, fitted together like large drainage pipes.

Pioneered and widely used in Belgium, this system has been little used in British mines. The concrete segments are simple solid blocks with no bolted connections and produce a tunnel with a smooth bore. This is contrary to normal civil engineering practice in which the segments are usually bolted together but in Belgium it has been shown that this type of construction is more suited to coal mining.

Designed to withstand the huge pressures which cause floor and roof to convergence, it will be expensive to install but will cut the long term cost of roadway repairs in manpower and materials. For example, at Coventry colliery, which has particularly difficult underground conditions, up to 300 men are sometimes engaged on roadway repairs.

The circular roadway supports will also cut Asfordby's costs by speeding up the access of men and materials to the productive areas of the mine.

In sinking shafts, the main problems often occur when going down through water-bearing strata. The six metre deep Asfordby shafts were no exception.

Between 280 and 400 metres below ground, hundreds of gallons a minute entered the shaft and British Coal had to decide how its main contractor, Cementation Mining, should tackle it.

The options were to drain the water through diagonal wells, to overwhelm it with cement, or to freeze the water.

It chose the freezing method. This involved drilling a ring of 39 narrower shafts around the circumference of the main shafts.

Under the supervision of a specialist company, British Drilling and Freezing, the outer ring was filled with brine and then frozen by a 2MW industrial refrigerator installed on the surface.

The whole freezing process lasted 20 weeks, during which the concrete towers for the shafts' head-gear were built. The frozen shafts were then lined with a 1-metre layer of reinforced concrete.

The shafts and the initial underground work are now due to be completed by the end of 1989. The next stage of contracts will be for the mine's underground roadways. The next two or three years should also see construction of the mine's coal preparation plant and its rapid rail loading point.

Maurice Samuelson

Maurice Samuelson examines the role of British Coal's technical department

Coal's fingerprint reveals its nationality

BRITISH COAL produces about 85m tonnes of coal a year from its underground mines.

What it does not normally disclose is that its mines also produce about 60m tonnes of unwanted dirt, which have to be separated from the coal if it is to be salable.

Achieving this separation is one of the main immediate targets of British Coal's technical department, which plays a wide-ranging role in trying to boost efficiency and quality through improved technology.

The department, now directed by Mr Trevor Massey, one of the corporation's leading mining engineers, was set up after the 1984-5 strike, to ensure that the needs of the corporation's business plans were met. It attempts this by: setting technical standards and spearheading technical innovation; and undertaking mining research and development.

The department employs 500 technical staff at Bretby, near Burton-on-Trent. It also includes 300 people at laboratories at Bretby and at Wath-on-Dearne, in South Yorkshire, providing scientific services to the industry. Last year, the department listed its targets as improvements in:

- ■ The level of non-productive work underground;
- ■ Reliability of machines;
- ■ Coal sizes;
- ■ Speeds of tunnelling;
- ■ Output at coal-faces;
- ■ Transport costs;
- ■ Efficiency of supplies procurement;
- ■ Health and safety standards.

Among the scientific achievements was development of a method of "fingerprinting" coal, by analysing the plants from which it was formed hundreds of millions a year ago. This has a commercial and political value.

As a result of work carried out by scientist Pamela Sprigg, at one of the department's labs, the corporation is in a position to tell customers whether or not coal sold to them as British is really produced elsewhere, such as in South Africa.

Dirt management, Bretby's foremost priority, also starts below ground at the coal-face and depends on the accuracy with which the shearing machine can distinguish between the coal and other unwanted minerals. Unless it is removed from the coal, it raises its ash level, and the electricity industry, British Coal's biggest customer, will cut its payments accordingly.

Roughly a quarter of all dirt is produced when the coal-face power-loading machine cuts into the roof or floor of a coal seam rather than the seam itself.

The department is also developing better ways of monitoring dirt from elsewhere in the mine, as well as better methods of handling the dirt.

At the coal-face, dirt can be reduced, thanks to the presence of guidance computers on the shearers which automatically maintain a fixed cutting horizon within the coal seam's boundaries.

One technique, unique to Britain, locates this boundary by registering the differences in the natural gamma radiation emitted by the shale above the seam and the coal itself. The radiation from shale is 10 times as strong as that from coal.

This technique has three commercial applications, of which the biggest-selling is Midas (machine information and diagnostic system), made by Anderson Strathclyde. The others are Diam, supplied by British Jeffery Diamond (part of Dresser Industries); and Pathfinder, produced by Mining Supplies, part of the Gullick group.

Some 90 systems have so far been installed in Britain, of which 50, linked to 20 per cent of annual coal output, are operational. Another 48 are committed in the next financial year.

Overseas, the first Midas is being demonstrated in an Australian mine, and discussions are being held with the US Bureau of Mines about a pilot scheme in a US mine.

On the coal-face, Bretby has also developed methods of accurately aligning the 200-yard armoured conveyors, which sweep away the newly-wrought coal, and the battery of powered roof-supports which cover the coal-face.

Such co-ordination is all the more important following the arrival of heavy-duty faces capable of churning out 1,200 tonnes of coal an hour. Unless the face conveyor feeds coal accurately on to the longer roadway conveyors, the system could snarl up, swamping the area with coal, paralysing production, damaging equipment and injuring miners.

The next major research stage will be to integrate the controls on all these different production machines. As a result, fewer face-workers would be needed, although, according to Mr Massey, the aim is not merely to cut jobs but to maintain continuous production. "We will keep the man on the system but limit his role", he says.

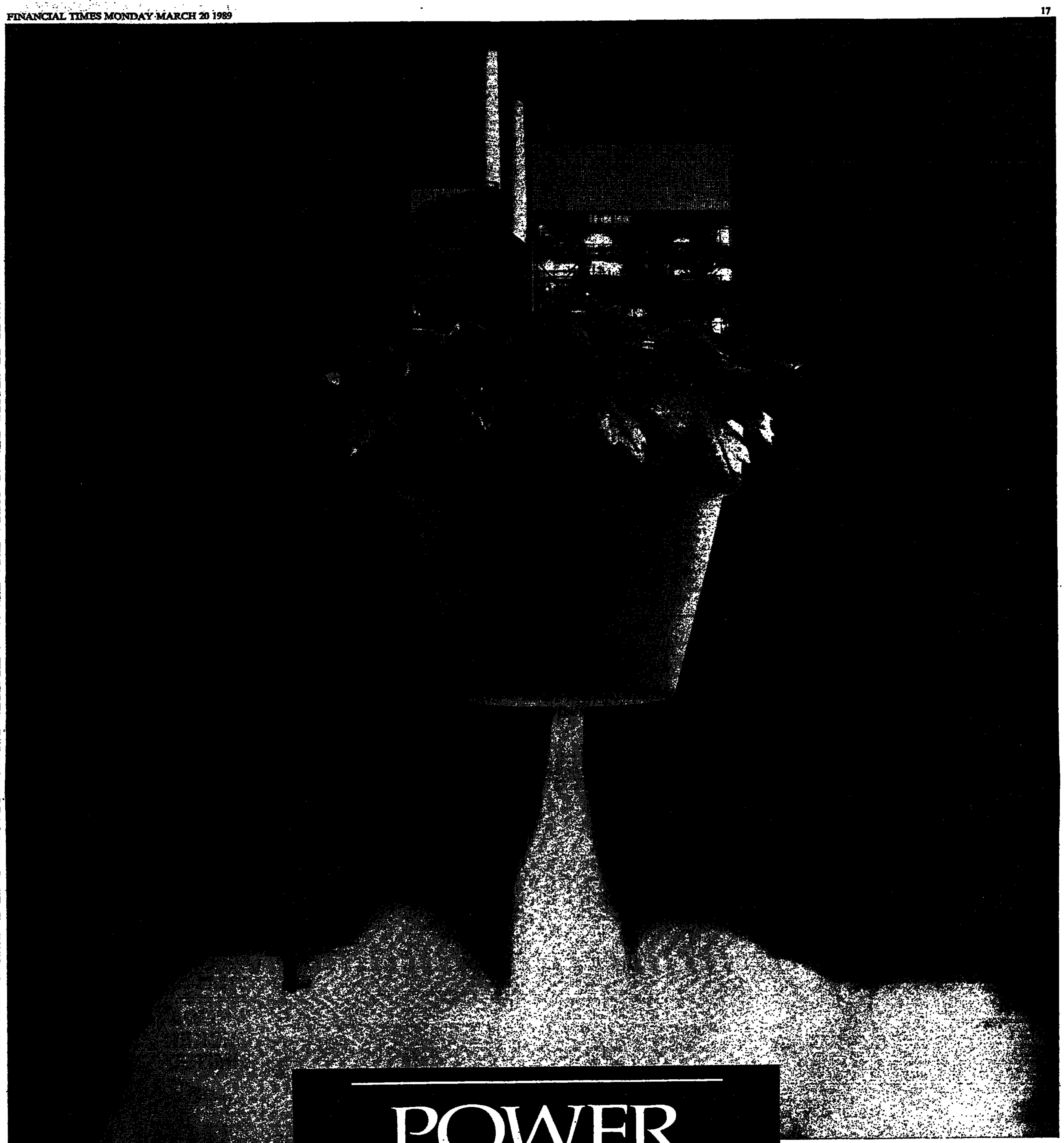
Elsewhere below-ground, manning reductions have been achieved by using computerised remote monitoring and control techniques, and by avoiding roadway repair work, which accounts for 9 per cent of all EBG shifts.

The standard monitoring tool is Minos (mine operating system), available for more than a decade, and of which about 150 are operating in more than 90 collieries.

While the basic principles of Minos are well established, Bretby is currently trying to widen its applications and to integrate it with other systems in some colliery control rooms.

On the environmental front, ventilation methods are being developed to cut methane levels. This dangerous gas is released at the rate of one cubic metre per second on a 1.5m-tonnes-a-year coal-face. Bretby therefore has to meet the safety regulations which require that it be diluted to only 1.25 per cent of the content of the surrounding air.

■ See also *Cutting out the dirt* – page 4 of this survey



PIT PONIES have been pensioned off. The Welsh cob now enjoys a more rustic and much happier existence, courtesy of mechanisation, than did the 23,000 ponies *inherited by* the National Coal Board in 1947.

After the pit pony, now used by British Coal in only one mine, came the locomotive; the flameproof underground variant of this species celebrates its 50th anniversary this year. Coal and the materials used to transport it to the shaft moved more quickly and in greater quantities.

The beast of burden was not yet free — the fixed route of the locomotive prevented its access to all areas of the mine. Pointwork, sleepers and rails all added to costs. It was only with the appearance of a wheeled and rubber-tyred vehicle not tied to a set route — in other words, a free-steered vehicle — that true flexibility had arrived in mechanised mining.

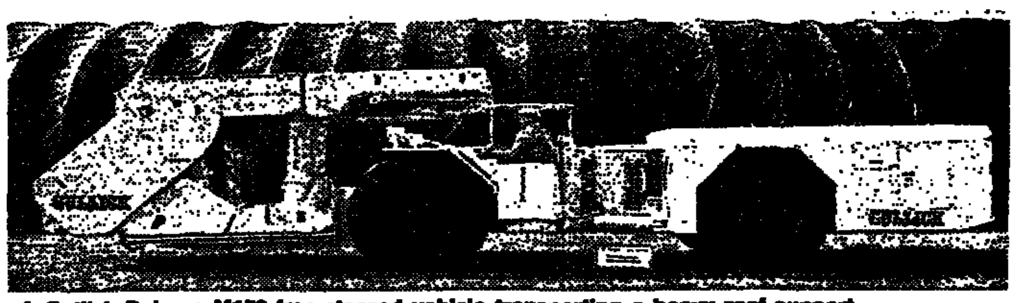
This independence of movement is exploited at all stages — not least when new faces are opened. Roof supports which move behind the shearer cutting the coal are regularly conveyed to their initial point of installation by FSV; while, by adding a seating section, miners can also be transported, saving time underground.

FSVs possess yet another advantage — special equipment can be operated from them, using power sources carried by the FSV. Thus, by means of a telescopic attachment, the roof of a roadway can be smoothed out. Roadway floors may be scraped flat or "dinted" with shovels, thereby combatting geological pressures which would reduce roadway height. Drills and hydraulic hammers can also work from the FSV, using it as a firm base.

Discussions continue as to whether FSVs should be diesel electric cable — or battery — powered. Traditionally, diesel power has had the upper hand in British Coal mines. In this case, the engine (usually supplied by such manufacturers as

Michael Schwartz on free-steered vehicles

The ponies' legacy



A Gullick Dobson M150 free-steered vehicle transporting a heavy roof support

Deutz or Caterpillar) must be made flame-proof.

The Nottinghamshire company Becorit Ltd has undertaken this conversion on more than 300 units now in service, mainly through a "dry flame-trap" which removes all unwanted heat through the radiator using a special heat exchanger. Personal comfort and safety are further improved by washing exhaust gas in a water-conditioner box. The result is a self-contained power-pack requiring no intermediate attention during a shift.

British Coal now runs almost 400 FSVs, more than 300 diesel-powered, and 62 running off a cable (battery-powered FSVs have only just received British Coal acceptance). More than 200 have been supplied by EIMCO, a division of Baker Hughes in Gateshead. The newest diesel vehicle from EIMCO works off Caterpillar power-packs, capable of 150hp, and can carry 20 tonnes, heavy by FSV standards, by fitting twin front wheels.

Complementing EIMCO's battery-powered FSVs is a new 8-tonne vehicle capable of 6km per hour and specifically aimed at working in confined mining environments. A 1.5 metre vehicle width and height allow operation in roadways as narrow as 2.7m,as well as close support work in restricted space.

The new model can also be parked on a 1-in-4 gradient. When batteries need to be changed, EIMCO supplies a centrally-located battery charging station, with its own chains, to lift and lower the batteries.

Free-steered vehicles, despite their continuous development, are in no way exempt from British Coal's drive for safety. Last year, the Health and Safety Executive's Annual Report described a 28 per cent reduction in accidents occuring during haulage and transport operations, but FSVs still accounted for five accidents.

On occasions, devices enhancing miners' safety are devised by the very men who work with the FSVs. At Prince of Wales Colliery, in North Yorkshire Area, hydraulic rams powered from vehicle-mounted batteries pull roof supports on to the FSVs' flat beds. The supports are secured by a girder, and chains are in turn anchored at the ram ends to the roof support canopy.

Prince of Wales Colliery miners developed this system to assist the rapid transfer of mining equipment from one face to another.

When it can cost up to £7m to equip a face with brand-new equipment,it is less expensive — and quicker — to salvage perfectly good, if used, machinery from a worked-out-face: FSV versatility and strength won the argument against all the other methods.

Gullick Dobson, now owned by Dobson Park Industries, is, in fact, a relative newcomer to FSVs. Its involvement arose through its aim of developing from the firm's original roof support business. At least 100 FSVs have now been sold to British Coal since 1980, of which 14 are at work in the Selby complex in North Yorkshire. The very latest, a 123kw diesel-powered MP150 vehicle, has been delivered to Whitemoor Colliery, where it will lift loads up to 16 tonnes.

Mine shafts, through which all equipment has to travel, impose their own constraints on FSVs. Very often, machinery has to be assembled after modular assemblies have been lowered into the mine. Ease of assembly in these circumstances is one aspect highlighted by the UK subsidiary of the Pittsburgh company Joy Technologies (fully bolted construction is offered for vehicles which need to be transported through difficult conditions).

Joy Manufacturing Co (UK) also stresses that its 10SC11 uses an electrical soft-start, allowing the a.c. motors to start without jerking, and to move forward inch by inch — of special value when a load is to be discharged, or where the vehicle is working near other equipment. Good ground clearance and a winch for 200m of British Coal approved cable are further features.

Manpower reductions have been a major consequence of the FSV in Britain's coal mines. Holman Tamrock has used this factor in promoting *the Roadrunna 4T. The* company, which assembles the Roadrunna's chassis in Finland and fits UK engines, flame traps, gearboxes and axles, visualises the FSV virtually eliminating the manual handling of materials, and thus lowering headcounts. Roadrunna 4T is designed to carry loads over its axles — in the case of its personnel transportation module, at speeds of 20km per hour.

One further role for the model is to support machines drilling the new roadways needed before a face can commence operations. Holman Tamrock claims that other vehicles in their range can drive two 60-metre tunnels in two weeks supported by the Roadrunna FSV.

For the immediate future, battery power represents the major change for FSVs. Ingersoll Rand, the largest supplier of battery-powered FSVs in US coal mines, was the first company to have a vehicle of this type approved by British Coal, after trials at Kellingley colliery. Its 601E uses a d.c. motor connected directly to the axle, and is powered by batteries of 900 or 1,200 amps per hour.

A capacity for 14-tonne loads, 1-in-4 gradients and for scooping materials of up to 3.1 cu m demonstrates the strength of battery power. Low heat generation, compared with diesel, and no fumes are other advantages that will boost battery power's role in underground work.

☐ *The author is Editor of Colliery Guardian Journal*

MACHINERY

Interest in longwalling lifts European exports

BY A twist of fate, British and German mining machinery enjoys a growing international reputation at the very time when demand from their own coal industries is being squeezed.

The paradox stems from the growing interest shown in the US and Australia in the European longwall method of mining, rather than the room-and-pillar system prevalent in many US and Australian underground mines.

Longwalling involves building two roadways up to 300 metres apart and 7,000 metres long, and slicing away the long panel of coal between them. Room-and-pillar work (also known as bord-and-pillar) involves extraction of large blocks of coal, leaving pillars of coal to support the roof.

The British and the Germans, who pioneered longwalling, specialise in the appropriate machinery, particularly the mobile roof-supports, the shearers and heavy-duty conveyors.

Such sales contributed much of the £200m-worth of machinery exported by British equipment manufacturers in 1986, the last year for which figures have been published. German exports were running at a similar level.

British companies supply just over a quarter of the whole longwall market in the US. Last year they provided roof-support systems in 40 out of 108 longwall mines; cutting machinery in 21; and the face conveyor in eight.

The need to maintain or increase this market share is exacerbated by the contraction the British coal industry, on whose back their prowess was established. This is forcing a painful shake-up by British mining equipment makers, marked by takeovers, mergers, management buy-outs, closures and redundancies.

It also coincides with tougher competition not only from the Germans but also from the Americans, eager to supply the longwall machinery market.

The past year in Britain has seen:

■ The withdrawal from mining equipment of the Dowty engineering and electronics group, and the management buy-out of its mining division; and

■ Closures and disposals by Anderson Strathclyde, the market leader in shearers, tunnelling machines and other mining systems.

Contraction is forcing a shake-up by mining equipment makers

Meanwhile, as other industrial groups are bowing out of the sector, Dobson Park Industries, through its subsidiary Gullick Dobson, is widening its portfolio by absorbing competing companies.

Dobson, Dowty's chief rival in the powered-support market, has taken over Mining Supplies International, of Doncaster. Five years ago it acquired Fletcher, Sutcliffe, Wild, of Wakefield.

Mr Alan Kay, Dobson's chief executive, describes the worldwide market, especially in longwall, as "stable to rising, with a niche for us if we restructure in the UK, improve our position overseas and broaden our range."

His group's mining equipment subsidiary, Gullick Dobson, has manufacturing facilities in the US, as does its recently bought-out rival Dowty, which also boasts a facility in Australia and fabrication agreements with Hungary and Belgium. Dowty's Hungarian associate has even exported a roof support to New Zealand.

However, both these companies face tough German competition in the roof-support market. A decade ago, Dowty and Gullick held a combined 60 per cent of the US market. Now the Germans have half of that market. The main German suppliers are Westfalia-Luenen, Kloeckner-Becorit and Hemscheidt.

Eickhoff, a German company, is also the leading shearer manufacturer. As well as the new US market, it has also long been active in Britain and accounts for 15 per cent of the shearers in British mines. Anderson Strathclyde and British Jeffery Diamond (BJD), its UK counterparts, have failed to achieve a similar penetration of the German mining market.

Meanwhile, the American manufacturers are also fighting back. Joy Technologies, the leading US supplier of continuous mining machines for room-and-pillar work, is now also building shearers for longwall mines as well.

Its machines are all-electric, rather than the more common electric-hydraulic models whose hydraulic fluids can be affected by dust.

British Coal has installed its first Joy shearer at Manton colliery, and may fit another at Hems Heath. It will compare them carefully with all-electric shearers ordered from Anderson and Eickhoff.

Maurice Samuelson

QUALITY

Cutting out the dirt

COAL is today produced in a buyer's market, and considerable efforts are made to provide the customer with the fuel he requires.

Although mining of coal takes place within the seam, it invariably collects some extraneous matter such as stone or shale. Early colliery companies, operating in a highly competitive market, sought every means at their disposal to produce as clean a product as possible. Mining was by hand. Coal was produced in as large lumps as possible, and the first screening took place as the miner loaded only coal by means of a fork into small tubs bearing his marking, so that if any stone was discovered it could be deducted from his wages.

A modern shearer eliminates large lumps as the picks on its revolving drum churn up the seam into little pieces. The coal is mainly for the power station market, which is not only geared up to take the smaller product but can accept some stone, which becomes known as the ash content and acts as a damper on fire-bars which might otherwise require replacement if pure coal was burned.

However, there is a limit to the amount of dirt a power station can accept. It is necessary to screen the coal and in most cases pass it through a washery. Large coal presents no problem, as this can be easily screened out, but the smaller product, generally referred to as fines, are more difficult to extract.

Over the years, numerous methods have been tried, to separate coal from stone using the different weights of the two products, centrifugal force, especially when dealing with small particles.

In the common size range 100-0.5mm separation is obtained by jigs. The Baum jig can treat the complete size range in one process. But it is less efficient than a process employing dense-medium separators particularly for the smaller sizes. The Baum jig has an added disadvantage in that it can only separate at relative densities higher than 1.5 and for raw coals sized less than 10mm the lowest cut-point possible is normally 1.7. Today's markets require a separation to be made at much lower densities.

Stone once meant a deduction from a miner's wages

Because any processing of coal after mining increases its cost, coal preparation engineers at British Coal's headquarters technical department at Bretby have spent a great deal of time and energy developing coal washing processes, particularly for the size range 100-0.5mm

British Coal's Lage Coal Dense Medium Separator (Larcodems) system incorporates best washing features and is designed to separate raw coal in the size range 100-0.5mm. Developed as an alternative to the Baum jig, it has the added advantage of being able to treat a similar size range of raw coal but with more flexibility and efficiency.

Larcodems is a comparatively smaller vessel and requires smaller associated circuitry, and the building is smaller. This is reflected in lower civil engineering costs. There are fewer mechanical and electrical items, and the separator itself is much cheaper than either a Baum jig or conventional dense-medium separators. The power on the plants upon which it has been installed works out about half that for Baum and dense-medium plants. In fact in one particular installation, at Point of Ayr Colliery, the operating costs, including depreciation, worked out at £0.85/t salable.

A further point in its favour is that, since there are no moving parts, the unit requires no regular maintenance. In a strip down of a Larcodems system the conclusion was reached that the normal three replaceable parts — raw-feed pipe, reject nozzle and clean coal nozzle — will last two years, and that the main body and the other parts should last five.

Keith Whitworth

Consulting Editor, Colliery Guardian Journal

DEEP MINING in Britain and West Germany takes the form of what has become known as longwalling.

Longwalls consist of a coal-face around 200 metres long *running* between two roadways and advancing as the coal is extracted. A variation is the retreat system, where the two side roadways are driven to their fullest extent and coal is extracted on the "retreat" from the boundary.

Both systems are ideally suited to workings under open country, where surface considerations *do not require* pillars of coal to be left to allay subsidence. Where underground mines are shallower, as in the US, pillars of coal have to be left to support the surface and narrower webs of coal, say up to 50m, are extracted between the pillars — a system known as short walling.

The equipment on the longwall coal-face consists of coal-getting machines, self-advancing roof supports, armoured face conveyors (AFCs) and communication and signalling apparatus. The AFC, or Panzer, conveyor is a German invention. Unlike its predecessors, it was made strong enough to bear the weight of the coal-getting machine riding along its side, while disposing of the coal loaded on to it.

The coal is removed from the seam by a shearer which traverses the coalface mounted on an AFC. It cuts the coal with a pick-laced revolving drum. Anderson Strathclyde manufactures a variety of shearers foremost of which is the AM500 and the all-electric multi-motor Electra 550.

British Jeffrey Diamond, part of Dresser Industries competes with its 170KW Maximatic shearer, the 300/375KW Supermatic and 300/375KW ACE. Other major manufacturers include Mining Supplies of Doncaster and Eickhoff of West Germany.

Moving on to self-advancing

Ollerton colliery, Nottinghamshire: typical of the new generation of heavy-duty coal-faces

Equipping the coal-face

Ways round pillars

roof supports the main suppliers in the UK are Dowty Mining Equipment and Gullick Dobson. Dowty supply supports for a number of seam thicknesses capable of bearing pressures of upto 1000 tonnes.

Dowty over the years has developed electronically controlled supports to operate on steep seam gradients and other irregular conditions.

Gullick manufactures hydraulic roof supports for all seam thicknesses and conditions. They come in two, three, four and six leg variations. Manufacturers of similar types of equipment in West Germany are Hemscheidt and Westfalia Lunen.

For such powerful machines to operate in a gaseous and potentially dangerous atmosphere the electrical supply from the surface to the coalface has to be absolutely spark-proof. Specialist cable and switchgear companies have therefore emerged to provide the necessary equipment. One of the largest UK manufacturers of high voltage switchgear for transmission and distribution is GEC Switchgear of Trafford Park, Manchester. It supplied the first air-break 3.3KV flameproof switchgear some 26 years ago and recently the world's first flameproof switchgear with vacuum circuit breakers for 6.6KV.

Brush Transformers, part of the Hawker Siddeley Group, which has been manufacturing transformers for over 100 years, produces units for flameproof mining equipment.

With the vast amount of powerful machinery on the coalface, totalling on average some £5m per face, communication and signalling must be of a high order. One of the foremost suppliers of pre-start warning devices is a company founded in 1779, Davis Derby. Others in the field include Communication & Control Engineering of Nottingham and DAC of Burton-on-Trent.

Products from Davis Derby range from relatively simple conveyor signalling systems to comprehensive micro-processor based equipment for surface monitoring and control of underground conveyors, fans, pumps and bunkers. It most recent product is "Minewatch" which monitors the mine environment and also remotely monitors and controls mine plant.

Coal-face lighting, another special requirement, is undertaken by Victor Products which manufactures a comprehensive range of explosion-proof cable-connecting equipment, control gear for fluorescent and discharge lamps and micro-processor-based electronic control equipment.

In shortwall mining systems, the main coal cutting is carried out by continuous miners which deposit the coal on to mobile conveyors for transporting out of the mine.

Joy Manufacturing of Chesterfield, the British subsidiary of Joy Technologies, one of the world's largest manufacturers of underground mining machinery, is principally concerned with the manufacture of UK-designed equipment and its adaptation to meet British requirements.

Roof support in this type of mining generally consists of roof-bolting the laminated strata above the seam which leaves the roadways clear for shuttle-car operations.

Keith Whitworth

An alternative method of roofing

Bolts can save costs

A FIRST-TIME British visitor to a US or Australian deep mine will notice a striking difference from the traditional underground British mine.

In the Britain the roofways are likely to be supported by heavy metal arches, girders and other metal or timber structures, through which the overhanging rock is rarely visible.

In the US and Australia, these supports are notable by their absence. Instead, the roof is riddled with large bolts, which prevent it from flaking off and collapsing on to the roadway.

The bolts, up to 2 metres long, are secured like dowels with powerful, adhesive resins, which glue together the overhead strata.

Their popularity in the US and Australia reflects the difference in their geology and mining conditions, compared with those of Britain. Having exhausted most of their shallow coal seams, the British are mining at much greater depths, with far greater roof stresses, than the younger US and Australian industries.

The Americans and Australians, with their big reserves, can afford to mine only one seam in a coalfield, while much of the mining in Britain takes place in ground disturbed by earlier mining activity.

It has also been regarded with deep suspicion by British miners since an ill-starred attempt to introduce it here in the 1950s. However, enthusiasts say that the technology has since been totally transformed and that it enhances safety rather than impairs it.

It also promises big savings. For example, in 1986-7, British Coal spent £127m on steel for use in supporting underground roadways and more than £100m on manshifts to repair existing roadways.

It says that a small cut in these costs means a significant saving, and that with less heavy steel to handle and transport there should also be fewer accidents.

As a result, it is now being gradually introduced again and in the past four years has been tried out for limited applications in nearly all British collieries in the course of salvage and the development of roadways.

No roads are yet supported only by bolts but there are now many where they reinforce conventional systems and it may be only a matter of time before they are used as primary supports.

Some of the best results have been achieved at Wistow colliery, part of the Selby complex, where Mr Eric Wilby, the manager, has called roofbolting "a godsend".

Although US, Belgian and French expertise is being studied, it is the Australians who have made the biggest impact here. An Australian system, the Wombat, is being manufactured here under licence, and British efforts are being assisted by Dr Winton Gale, of the Australian Coal Industry Research Laboratories, the acclaimed "guru" of roofbolting.

Maurice Samuelson

Loading overburden, at Lemington Mine, near Newcastle, New South Wales — Ashley Ashwood

Opencast: **Maurice Samuelson** on the technique in Australia

The quest for efficiency

OPENCAST mining is as much to do with shifting large volumes of earth as extracting the coal beneath it.

Its profitability depends on the ratio of the overburden moved for each tonne of coal. The thinner the overburden, the greater the profit on coal sales.

If the coal is too deep to remove from the surface, the mining company will prefer to develop an underground mine. In the UK, where most of the shallow coal reserves were worked out centuries ago, only about 15 per cent of coal is worked by opencast methods.

In Australia, with its younger coal industry, a much higher proportion is produced by opencast, or opencut, methods. However, even in Queensland, with the highest proportion of opencast, the exhaustion of shallower seams, coupled with the technological advances in deep mining, could soon start to tilt the balance in favour of underground mines.

For the opencast operator, the other variable factors include the quality of the coal, the distance of the coalfield from the market, and the environmental standards which have to be met.

However, these still leave wide margins for judgment and efficiency on the part of the operator, in assessing his reserves, and the general running and equipping of the mine.

Similarities to an underground mine are likely to be restricted to its arrangements for screening, washing, stocking and transporting the coal after it has been mined.

Otherwise, an opencast mine is essentially a large-scale quarrying site, with heavy vehicles continually at work moving earth and coal, and the regular use of explosives to break up the ground and loosen the coal.

On most sites, the biggest piece of machinery is the dragline, consisting of a huge toothed shovel, suspended from on a long steel boom, and controlled from a track-mounted cab as big as an office-block. Working up and down the coal seam, its job is to transfer the overburden that lies on top of new coal to the void where coal has already been removed.

Where the overburden is soft and consistent, this job may be carried out more rapidly by a bucket-wheel excavator, which continually gnaws away at the earth and rock.

Meanwhile, the coal itself is handled by a series of other machines – scrapers and bulldozers to clean away the remaining earth, and mechanised shovels, front-end loaders and trucks to move the coal.

On many sites, the coal goes by conveyor belt to the preparation plant and thence to a rail loading-point. At one Australian mine, a mobile crushing unit, screens the coal as soon as it has been removed from the seam.

If the mine contains lignite, or brown coal, rather than bituminous black coal, it will probably send it directly by conveyor belt to a nearby power station built to burn the entire production.

The biggest growth in opencast coal mining has occurred in Queensland, which produces about half the 140m tonnes of coal a year produced in Australia, the world's leading coal exporter. Between 1974 and 1987, while Queensland's deep-mined output hovered at about 5m tonnes a year, its opencast rose from 21m tonnes a year to 80m. tonnes.

Most of the state's 26 opencast sites are along the Bowen Basin, one of the world's richest coal deposits. Developed in response to the oil scarcities of the 1970s, it includes the eight big mines managed by BHP-Utah Minerals International, which have a combined output of more than 33m tonnes a year.

Despite their superficial similarities, the Queensland opencast mines vary considerably in the quality of their coal seams, the way they extract them, and their levels of investment and technology.

By BHP standards, the Norwich Park mine is marginal, producing 4.5m tonnes a year for export to the Far East and Europe. Because of the distance from the coast, it is saddled with rail freight rates per tonne equal to those of its own production costs. And that is without the additional cost of shipping it abroad as far as Europe.

In the absence of a high-technology coal preparation plant, like that installed elsewhere, Norwich Park has benefited from simpler innovations such as advances in the use of explosives.

Like mining industries the world over, Norwich Park uses mixtures of ammonium nitrate and oil to blast the overburden before bringing in the draglines or the trucks and shovels. Each new area to be blasted is first drilled with up to 300 holes, 45 metres deep and inclined at 20 degrees.

Each hole is filled with a 94 per cent mixture of ammonium nitrate and 6 per cent fuel oil, into which electrically-fired high-explosive detonators are inserted.

Until about five years ago, this was a highly labour-intensive operation. The materials, supplied by Imperial Chemical Industries, came in 40-kilo bags which a team of 12 men poured into the boreholes, together with the oil. Today, the chemical ingredients are conveyed to the site in a train of vehicles which are coupled up to mix them before automatically filling the boreholes.

Mr John Thompson, the Norwich Park manager, says this has enabled him to cut his explosives team by half, and that the mine would now be losing money if it were still using the methods of the early 1980s. The present system is familiar to other forms of mining; but, says Mr Thompson, it is relatively new in Australia's opencast coal sector.

The main innovations in earth-moving equipment relate to the steady increase in size and the use of computers to control and supervise their operations.

Front-end loaders, the work-horses of the opencast industry, are now armed with 17cu m buckets, compared with only 10cu m only four years ago.

Manufacturers are ready to supply vehicles capable of lifting 300 tonnes. But for the time being, 240-tonners appear to be the limit because of the difficulty of making tyres strong enough to to withstand such weights.

With heavy-duty tyres on the biggest six-wheel vehicles costing up to $50,000 each, there is no point in fitting them with tyres that do not last the course.

The present aim is to keep them going at least 5,000 hours, about 18 months. Apart from the environmental need to control dust, that is why mine operators have to keep their internal roads as smooth and clean as possible.

Dr. Geoffrey Oldroyd, the British-born coal planning manager of MIM, the Queensland mining house, and an expert on opencast technology, says the industry is also seeking better results by optimising the use of its equipment.

In Australia, this becomes more urgent as the shallower seams begin to be worked out and more overburden has to be displaced. In the Bowen Basin mines, draglines with 47cu m buckets are used to remove 40m of overburden. But most mines are now preparing to go down to 90m before deciding to extract the coal by underground mining methods.

To reach these depths they have to carry out a pre-stripping phase, using trucks and shovels, which tends to be more expensive per cubic metre than the use of the drag-line for the remaining overburden. Computers are therefore being installed to optimise the use of this costly machinery by monitoring their movements. In the last two or three years, meters have been fitted to count and time the swings of the drag-line and activities of shovels, and the amount of material they move.

The main limitation on this computerisation appears to be the difficulty in sifting and analysing all the information it provides.

Technological developments also focus on removing all the coal in a mine, with the minimum of dirt. Where the mining takes place at night, this requires better visibility for the driver of the front-end loader, especially if he is removing coal from a narrow seam.

Interest is also growing in the use of continuous-mining machines, which are driven over the coal seam and tear it up like a lawn-mower cutting grass. One of these machines, manufactured by Wirtgen of West Germany, has been installed in Western Australia. Several US machines have been deployed by the US coal industry.

The usual method of moving the coal off the face is by front-end loader and haulage truck. In Australia, a major exception is at the highly profitable Ulan Mine, New South Wales, owned by a consortium of Mitsubishi, Exxon and local Australian interests.

The Ulan mine's opencast coal (it also has an underground section) is dug by a large shovel and put straight into a mobile crusher, which feeds into a series of belts that can be extended or re-positioned as the shovel switches around.

According to Dr Oldroyd, a similar method is also being considered instead of the costly use of trucks for shifting overburden.

The need for quality-control is evident at MIM's Newlands mine, towards the northern end of the Bowen Basin, which produces 4.75m tonnes a year from a 7m-thick seam.

The mine boasts a 2km-long preparation plant, based on the West German Batac system. Looking like a stretched version of Blackpool's Big Dipper, the computer-controlled installation consists of a series of conveyors and jigs which screen the coal to the required sizes, eliminate ash, and finally load it on to trains.

"It takes only 25 minutes for the coal to be mined, screened and loaded on the train," says Newlands manager, Mr Mike Dixon (like Dr Oldroyd, he previously worked for British Coal).

These, and other developments represent the leading edge in opencast mining technology. As in underground mines, they are continuous attempts to reduce costs, increase output and overcome the obstacles of geology.

ENVIRONMENT

New projects face stiffening scrutiny

COAL MINING spawns unpleasant side-effects, like subsidence, spoil-heaps, water pollution and general dereliction. But never has it faced such strong environmental resistance as it does to-day in advanced industrialised countries.

Any large-scale new mines, whether underground or opencast, have to undergo the most rigorous scrutiny and, to gain public and political acceptance, must be as unobtrusive and pleasing as possible.

Environmental planning has therefore been raised to a fine art, and has become an inseparable handmaid of mining engineering. It involves expertise in civil engineering, agriculture, local government, law, public relations, and more esoteric subjects such as entomology, botany and zoology.

This is especially so in densely populated Britain, which relies heavily on coal for its energy needs, but where potential sites are rarely far from built-up areas or agricultural land. In bigger or more thinly populated countries, too, such as the US and Australia, mining faces environmental restrictions, although there is probably a more relaxed attitude in newer producers such as Colombia and Venezuela.

History, as well as demography, lies behind British sensitivities. In the public mind, coal mining is associated with the early years of the industrial revolution, many of whose scars still disfigure the landscape.

The fears emerge most sharply when mining is proposed in areas where the coal industry has not trodden before, such as farming country or the "green belts" around major cities.

This was evident in the outcry in January at the start of a planning inquiry into British Coal's application to build a new super-pit at Hawkhurst Moor on the western outskirts of Coventry, Warwickshire.

Anticipating strong local hostility, British Coal spent many months consulting residents' organisations on how to meet its own requirements with the minimum inconvenience to the district. It also commissioned a detailed study of the wild life and plants round the proposed mine site. Its environmental proposals include:

- Removing colliery waste from the district for tipping in a disused quarry;
- Constructing special road links to keep heavy goods traffic off the local road network;
- Building bunding, landscaping and trees to reduce noise;
- Limiting the height of the headgear to that of the tower at the adjoining Massey Ferguson tractor factory;
- Controlling dust by spraying stockyards;
- Covering coal lorries and spraying them before they leave the site.

In making these efforts, the coal industry was deeply conscious of what happened a few years ago over its plans for three new mines under Leicestershire's rural Vale of Belvoir.

In 1979, three years after the proposals had been announced, a public inquiry conditionally agreed that the pits could be built. But in 1982, Mr Michael Heseltine, then environment secretary, rejected two of the mines, and approved only one – at Asfordby, which is now under construction.

Opponents of the Warwickshire mine fondly recall the Vale of Belvoir battle as proof that the coal industry can be stopped in its tracks, even if a local inquiry decides in its favour.

British Coal, which is confident of winning the local argument, draws a different lesson from the Vale of Belvoir experience and its aftermath. It claims that some of its most vocal opponents in Leicestershire now agree they were wrong and that their fears have been confounded by the care with which the Asfordby pit is being built. It therefore uses this mine as a show-case of what can be achieved at Hawkhurst Moor.

It makes similar capital out of its stylish architecture in the Selby coalfield, in North Yorkshire, where it has blended buildings with the colour of the local villages and encased its winding towers, the traditional colliery landmarks, in more acceptable structures.

However, the difficulties of the underground mining industry are less formidable than those facing the opencast sector. In a deep mine, most of the environmental issues are settled when the project receives final permission. But at a new opencast site there also has to be progressive restoration during its productive life, as well as in the years that follow.

A landscape fit for the great crested newt: Cutacre tip, near Bolton in Lancashire

In the US and Australia, mining companies deposit sizable financial bonds with the local state government, which they risk forfeiting if restoration work falls behind schedule or below standard. During the production period, there are strict conditions on levels of noise, dust, water pollution, and the system of transport.

Surface rehabilitation embraces a wide range of ecological features – the depth of restored top soil, the position and quality of ponds and streams, the plants and trees to be planted, and conditions for insects, birds and animals.

At the Dolet Hills lignite mine, in Louisiana, the UK-based Costain Group, which operates the site, was ordered to restore trees that would provide cover for deer. The state authorities had permitted it to replant the site with fast-growing conifers. But the federal authorities intervened, and insisted on more expensive and slower-growing deciduous trees.

> In the public mind, coal mining is associated with the the industrial revolution, whose scars still disfigure the landscape

Restoration standards appear somewhat less arduous in the remote opencast mines of central Queensland, where the poor land is suitable at best for low-grade grazing. It is usually sufficient for the mining company to re-contour the site, and to plant grass on the restored top-soil.

It is in Britain that opencast mining faces its toughest conditions. The opencast executive of British Coal produces about only 15m tonnes a year, compared with 85m tonnes from the less profitable deep mines. But it supports the deep mines to the tune of £250m every year.

With the average UK opencast site in production for only five years, a fifth of the opencast capacity needs to be replaced every year merely to maintain output levels.

To do so, it has to overcome criticism of organisations like the Council for the Protection of Rural England, whose senior planner, Mr. Richard Bates, says opencast workings squander fine countryside and "make a misery of the lives of nearby residents".

The CPRE claims that, as a result of a "cosy" relationship with central government, the opencast industry is currently finding it easier to obtain planning permission.

But British Coal is far from satisfied with its success rate. Mr Ray Proctor, its opencast executive director, says that, of the 12 new sites needed this year in England and Wales, he has approval for only seven, and last year obtained permission for only 22 per cent of the new tonnage applied for.

British Coal's strongest argument is that, far from ruining the environment, its opencast workings often improve it out of all recognition.

Although the environmental critics stress the damage to virgin countryside, many of the sites in which British Coal is interested are derelict land, scarred by the effects of shallow underground workings in years gone by.

In the past 22 years, says Mr Proctor, nearly 16,000 acres of dereliction have been cleared and restored to useful land for farming, housing industrial estates, shopping centres, recreation amenities, such as boating lakes and country parks. A scheme currently proposed in Sheffield, he says, would provide space for the city's first airport.

Some of his successes and frustrations are equally evident a few miles south of Ripley, in Derbyshire, where British Coal's contractors are extracting the last coal from the Ryefield site, overlooking the famous Denby pottery.

Most of the site has already been transformed into green farmland, including a sports ground. British Coal now wants to reclaim some 2.25m tonnes of coal which lie across the road in the Kirk site. This is an ugly black spoil heap left by the former Denby Hall colliery. Nothing grows on its soggy, dangerous hillsides, where rolls of barbed wire fail to keep out motor-cycle dirt-riders.

In extracting the coal, British Coal would simultaneously eliminate the tip and use it as landfill in part of the Ryefield site over the road.

Two years ago, initial proposals were turned down, on the grounds that they would also have affected mature countryside and farmland. A revised application is now being prepared, but there is no guarantee of success.

Another, more picturesque, example of the pitfalls of opencast mining followed British Coal's proposal to clear the Cutacre coal tip, in Lancashire, said to be the biggest eyesore of its kind in Europe.

The first mining plan there was turned down, on the grounds that it was too close to human habitation and that it would have destroyed the breeding ponds of a rare amphibian, the great crested newt.

The plan is currently being revised to accommodate the interests of all local inhabitants – human and otherwise.

Maurice Samuelson

COMPANY NOTICES

C. ITOH AND CO., LTD. OSAKA, JAPAN
20th March, 1989

NOTICE OF THE RESOLUSION OF THE BOARD OF DIRECTORS CONCERNING THE ISSUANCE OF NEW SHARES

To Shareholders
Notice is hereby given that with respect to the issuance of new shares of C. Itoh and Co., Ltd. pursuant to the resolution of the Board of Directors adopted on March 1, 1989 it has been resolved at the meeting of the Board of Directors of C.Itoh and Co., held on March 13, 1989 that the terms of the public offering of such new share issue shall be as follows:

1. Number of shares to be issued: 100,000,000 shares of non-bearer par value common stock
2. Amount of issue price: Yen 962 per share
3. Amount of the portion of the issue price which shall not be accounted for as the stated capital: Yen 481 per share
4. Date of subscription: March 31, 1989 (Friday)
5. Offering method: Public offering through underwriting by:
The Nikko Securities Co., Ltd.,
The Daiwa Securities Co., Ltd.,
The Nomura Securities Co., Ltd.,
Yamaichi Securities Co., Ltd.,
Nippon Kangyo Kakumaru Securities Co., Ltd.,
Jardine Fleming Securities Ltd., Tokyo Branch
New Japan Securities Co., Ltd.,
Morgan Stanley Japan Ltd., Tokyo Branch
Dai-Ichi Securities Co., Ltd.,
SBCI Securities (Asia) Limited, Tokyo Branch
DB Capital Markets (Asia) Limited, Tokyo Branch
Cosmo Securities Co., Ltd.,
Purchasing the entire shares to be issued.
6. Date of commencement of dividend accrual period for the new shares: April 1,1989

CITY OF BERGEN
FLUX 500,000,000 7 1/2 % 1973/1991

On March 6, 1989, Bonds for the amount of FLUX 25,000,000 have been drawn in the presence of a Notary Public for redemption on April 10, 1989.

The following Bonds will be redeemable coupon due April 10, 1990 and following attached :

30 to 48 incl.	177 to 209 incl.
270	968 to 988 incl.
1415 to 1440 incl.	3107 to 3256 incl.

Amount outstanding: FLUX 125,000,000

Bonds previously drawn and not yet presented for redemption :
002 to 004 incl.

Luxembourg, March 20, 1989

THE FISCAL AGENT
KREDIETBANK
S.A. LUXEMBOURGEOISE

Riggs National Corporation
USD 100,000,000
Floating Rate Subordinated Notes Due 1996

In accordance with the provisions of the notes notice is hereby given that for the period 20 March 1989 to 20 June 1989 the notes will carry a rate of interest of 10 7/16% per annum with a coupon amount of USD 266.74.

Chemical Bank
As Agent

Riggs National Corporation
USD 60,000,000
Floating Rate Subordinated Notes Due 1996

In accordance with the provisions of the notes notice is hereby given that for the period 20 March 1989 to 20 June 1989 the notes will carry a rate of interest of 10½% per annum with a coupon amount of USD 268.33.

Chemical Bank
As Agent

CONTRACTS & TENDERS

TENDER NOTICE

BANGLADESH POWER DEVELOPMENT BOARD
GREATER DHAKA POWER DISTRIBUTION PROJECT - PHASE III
(REFERENCE NO. BA1A - 8/10328)

The Crown Agents, acting on behalf of the Bangladesh Power Development Board of the Government of Bangladesh, hereby invite Tenders for the under mentioned Contracts:-

1) Turnkey Contracts:-

Specification No. 57292/4 Turnkey Contract for 132kV and 11kV Substation Equipemnt including Civil Works.
Specification No. 57292/16 Turnkey Contract for 33kV and 11kV Substation Equipment including Civil Works.

2) Supply Only Contracts:-

Specification No. 57292/10 Supply Only Contract for 11/0.4kV Distribution Substations and Power Factor correction Equipment Specification No. 57292/12 Supply Only Contract for 11kV oil immersed switches and fuse switches.

Which subject to the signature of an exchange of letters between the British and Bangladesh Governments, it is envisaged will be financed by the Overseas Development Adminsitration of the British Government.

Potential bidders from U.K. Contractors, Suppliers and Manufacturers are advised that Tender Documents will be available from 10.00 am. local time on Tuesday 28.3.89 for collection from the office of:

Crown Agents
St. Nicholas House
Sutton
Surrey
SM1 1EL

Each Tender Document, comprising of two or three volumes, will cost £200 Sterling and cheques or Banker's drafts should be made payable to Ewbank Preece Limited clearly mentioning the Greater Dhaka Power Distribution Project - Phase III Tender No. 57292/.... This money will not be refundable.

The closing date for receipt of Tenders at Crown Agents office is 1 pm. local time on the dates against each of the documents as follows:

Specification No. 57292/4 .... Fri 23rd June 1989
Specification No. 57292/10 .... Fri 26th May 1989
Specification No. 57292/12 .... Fri 26th May 1989
Specification No. 57292/16 .... Fri 22nd September 1989

no tender received after this will be considered.

Tender documents will be opened on the same day as the Tender Closing Date and all Tenderers submitting Tenders will be informed of their safe receipt.

Prospective Tenders are advised that any queries to the *Tender Specification shall be addressed to:-*

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Consulting Engineers
Prudential House
North Street
Brighton
Sussex BN1 1RZ

Phone: (0273) 724533
Telex: 878102 (EPL (EPL BTN G)
Fax: (0273) 200483

Marked for the attention of the Project Director/Project Manager - Dhaka Phase III.

CONSTRUCTION

£60m development in Woking

A contract worth some £60m has been awarded to TAYLOR WOODROW MANAGEMENT CONTRACTING by London & Edinburgh Trust for the construction of The Peacocks, a new shopping, arts and entertainment complex in Woking, which is being developed by LET in association with Woking Borough Council.

The 11 acre development, to be built by TWMC, will provide some 330,000 sq ft of retail space on three levels – including an Alders department store covering 139,000 sq ft – a 400 seat food court, plus a three-screen cinema, library, nightclub and a 1,300 seat theatre. Above the retail area will be parking for 1,800 cars.

At the heart of the scheme will be a glass atrium – one of the largest in the country – which will provide the focal point for the whole complex. Work on site will start in the summer for completion at the beginning of 1992.

Taylor Woodrow Construction (Northern) has been appointed consultant contractor to Manchester Airport for phase 1 of the construction of Manchester Ringway Airport's second international terminal.

This phase of the terminal, due to be in operation by March 1993, will increase the airport capacity by 6m passengers per year. The first phase of the project is designed to increase capacity by 12m passengers per year and will represent an investment of well over £500m during the next six years. The initial phase of the airport's expansion is valued at £234m. Work has started on site.

Reducing paperwork for contractors

The Inland Revenue has announced a series of proposals aimed at reducing paperwork for contractors. They would also make it more difficult to commit large tax frauds, writes *Andrew Taylor, Construction Correspondent.*

The proposals affect vouchers (known as 715s) which many sub-contractors must present to contractors if payments made to them are not to have tax deducted at source at 25 per cent.

Contractors pass the vouchers to the Inland Revenue which checks its records to determine whether sub-contractors and contractors are paying the right tax. More than 6m vouchers were returned last year.

New rules, proposed in a consultation paper*, would allow sub-contractors to aggregate payments instead of presenting a voucher for each payment.

This would significantly reduce the number of vouchers returned during the life of a contract. More than 90 per cent of vouchers are issued for sums of less than £2000, says the Inland Revenue.

It proposes that sub-contractors would not be permitted to receive tax-exempt payments unless they had first presented a voucher. This would absolve contractors from having to chase sub-contractors to provide vouchers after payments had been made.

The new proposals would also hit at sub-contractors which sell vouchers or increase the amount of payments shown on vouchers which contractors use to offset against tax.

The Inland Revenue proposes to limit payments shown on each voucher to £10,000. This means contractors conspiring to defraud the revenue would have to return a lot more vouchers to make the practice worthwhile.

The Inland Revenue says the effect on genuine transactions would be minimal as less than 2 per cent of vouchers currently are for sums of more than £10,000.

The consultation paper also proposes changes which would affect larger sub-contractors holding 714C certificates. These do not have to provide vouchers when receiving payments from contractors.

The Inland Revenue proposes that contractors using sub-contractors with 714C certificates should inform the Inland Revenue within a month of the first payment being made. Currently information on payments made to 714C holders is provided annually. Comments on the proposals must be made to the Inland Revenue by May 31.

**Sub-contractors scheme: Reducing Paper Work, Reference Library, Somerset House, London WC2R 1LB. £1*

Shopping project in Southampton

The Southampton region of WIMPEY CONSTRUCTION has been awarded a £23m design-and-build contract by Heron Property Corporation for The Marlands, a shopping development in the centre of Southampton, opposite the Civic Centre, to be completed ready for trading in late 1990.

Shop units flank a central mall at two levels and the centre will be linked to the city's main shopping streets. A new multi-storey car park, Gateway superstore, Skandia Life office development site and a Heron Homes site will also form part of the development. Access will be by way of two entrances in Portland Terrace, and a third from above Bar Street. The malls will be lit naturally through roof glazing and open wells. The main concourse will incorporate two two-storey public squares, one of which will have an octagonal glazed roof. The other, to be known as Manchester Square, will feature a two-storey atrium with Two wall-mounted scenic lifts, and a multi-pyramid glazed roof. A reconstructed terrace with the facade built with bricks retained from the original structure will front onto this square. A listed building in Ogle Road is to be integrated into the development, and will operate during construction.

The ground floor will house 31 shop units, 18 with basement storage. The first will have 22 units, 17 with roof-level storage. The malls are served by six escalators providing a pedestrian link between each floor

Changing the face of Dublin

McINERNEY CONTRACTING, a subsidiary of McInerney Properties, has obtained work valued at over IR£36m (£30.2m). The work covers five schemes in Ireland, four of which are located in the Greater Dublin area.

The first involves the construction of office buildings totalling 125,000 sq ft for Earlsfort Centre Developments at Earlsfort Terrace, Dublin 2. The scheme covers blocks D and E of the Earlsfort Centre development project and is valued at IR£8.5m (£7.1m). The building will be set within the plaza of the Earlsfort Centre and will face the Conrad International Hotel. It will include underground car parking with a capacity for 60 vehicles and computer flooring. Work has already begun on the scheme and is expected to be complete within 18 months.

McInerney Contracting has secured major extension works to the Ballymore Eustace water treatment plant for Dublin Corporation. The contract is valued at IR£10m (£8.4m). The extension work will double the capacity of the plant to cater for an additional 20m gallons per day. Construction work will involve building large sedimentation tanks, a water tower, substantial pipelines and valve complexes and other ancillary works. Work will commence after Easter and is expected to be completed in two half years.

Further contract work valued at £IR5m (£4.2m.) has been negotiated with the Custom House Docks Development Company for the construction of foundations for the North/South blocks of the Financial Services Centre.

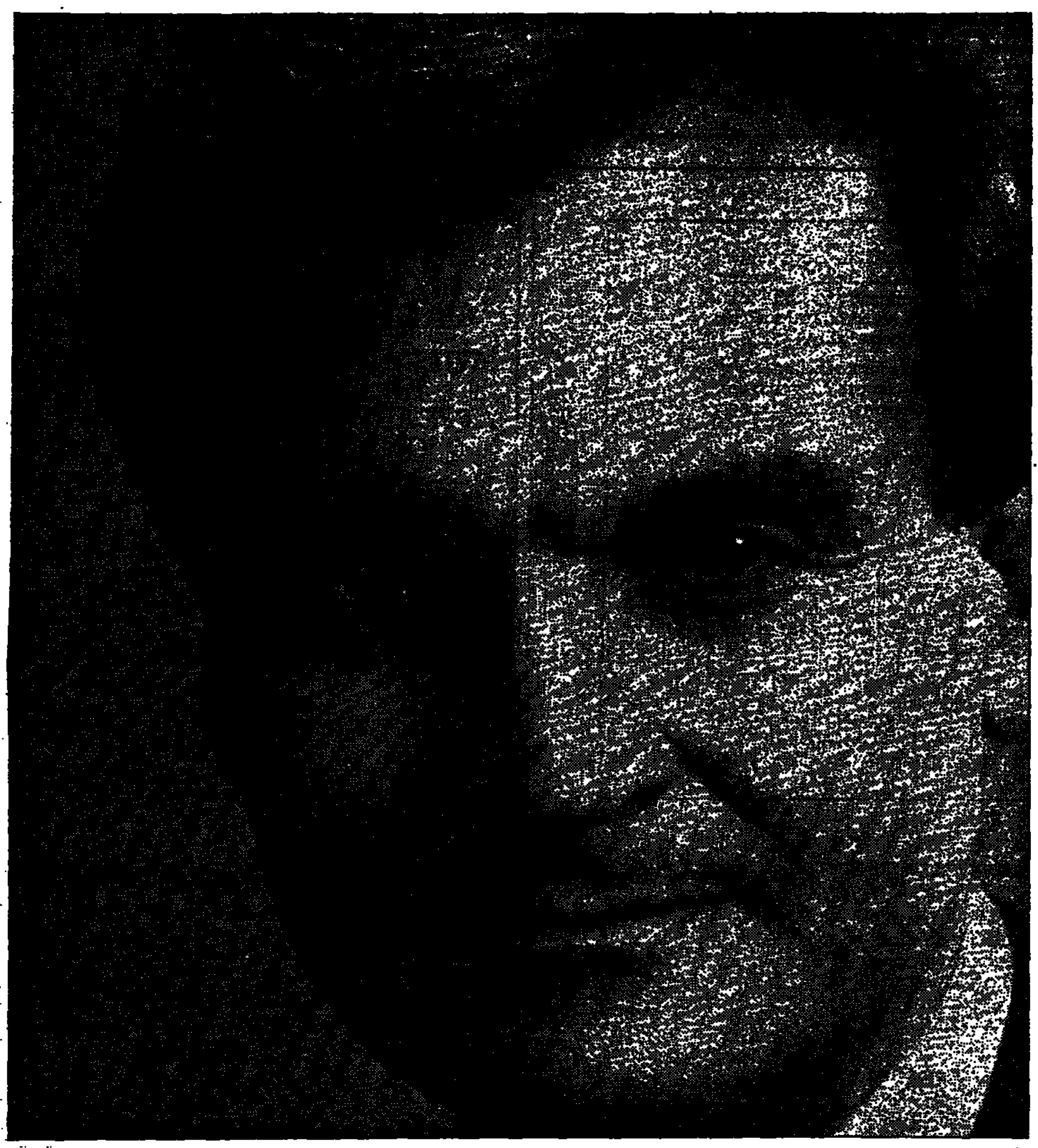
Work is expected to commence in April on the IR£8.25m (£6.9m) University College Dublin student accommodation project. Planning has been submitted for the project which will involve 595 student bedrooms

Hogg on competition.

KENNETH FLEET TALKS TO SIR CHRISTOPHER HOGG, CHAIRMAN AND CHIEF EXECUTIVE OF COURTAULDS ABOUT TRAINING, ENTERPRISE AND COMPETITION.

FLEET: *With 1992 approaching fast, what are your feelings about the competition faced by British business today?*

HOGG: The competition feels something like two or three times as great as it did when I started my industrial career in the 1960s. It's partly the effect of globalisation, the revolution in communications and transfer of technology; and partly it's the growing economic strength of the Far East, headed by Japan. They are absolutely formidable competitors because they get their total act together on a national basis and they have a set of attitudes, which you can call culture, which makes them very effective industrial fighting forces.



FLEET: *How do we compare? Are we having to swim fast to stay in the same place?*

HOGG: Yes, we certainly are.

To my way of thinking, the only course of action for a western company which is locked in global competition is to learn the lessons which the Far East, Japan in particular, is teaching us.

> *"The way you deal with competition is to be more effective in relation to the customer."*

The way you deal with competition is to be more effective in relation to the customer, who after all provides your sole source of existence. If you're really going to do that differently from what you've done in the past, and better, then you have no alternative but to examine every aspect, every facet, of the way in which you do things, and that of course means involving everybody in the company.

The kind of people we need now are above all flexible people. Training is desperately important, but what you also want to happen is for people to co-operate with one another, to remain open minded, to remain motivated.

> *"Training through life is not a deeply ingrained concept in the management of this country. It has to become so."*

FLEET: *How would you describe the management attitude to training at Courtaulds?*

HOGG: Training is like motherhood: we are all in favour of it. The essential point about training is that it fits like a glove into the whole purpose of what the company is trying to do. It should be accompanied by the right set of attitudes, the inclination to work as a team, and so on. It should not be something painted on with a brush. You relax because you say 'I have given x or y three weeks training this year and that's fine.' For all you know x or y needs an unremitting 52 weeks of training and he should get it on the job.

FLEET: *What are the criteria for successful co-operation between government and private industry in the area of training?*

HOGG: The criteria for successful co-operation between government and private industry in certain areas raises fascinating issues. I have spent a great deal of my working life thinking of the differences between the public and private sectors, or rather, slowly becoming aware of how fundamental those differences are, and I don't think either side can begin to take it for granted that the other understands their viewpoint adequately.

A great deal has to be done to make sure that everyone understands the framework in which they are doing things; why they are doing them; what the priorities and the purposes are; because it is very easy for a group of people of real ability and distinction from each side of the fence to get together and assume that they are all trying to do the same things and that those things are sensible; and then to discover a long way down the track that they simply have not thought it through because they start from different viewpoints. I can't stress enough the value of co-operation, but all the time it must be on a practical, open minded, self-examining, talking-it-through basis.

FLEET: *The Government clearly believes it is introducing a radical reform with the new Training and Enterprise Councils. What do you feel about that?*

HOGG: I note the emphasis that the Government is putting on them in terms of resources, men and money. I note the general principles outlined in 'Employment for the 1990s' and I can only applaud those principles. But I find that the great variety of initiatives now around are confusing and I would hope that over a period of time the TECs will come to be seen as the principal area of focus for business/government co-operation in relation to employment. Most people find that a lot of bodies with long names and initials do become very confusing and they can't see how it all fits together.

> *"The competition feels something like two or three times as great as it did when I started my industrial career in the 1960s."*

It's all right for the tidy-minded civil servants who drafted it all, but it is quite another for those who have got to make it operate.

In 10 years' time I would like to see the TECs have the sort of well recognised stature in their areas which will lead to a whole lot of things falling automatically to them and being lead by them. We have in the TECs a theoretical mechanism which now everybody has to buckle down and make work.

Everything starts locally. Courtaulds is only manageable if you thrust power and autonomy to organise it as far down the organisation as you possibly can. The TECs' purposes are very much better handled and generated at local level where you can get a core of common perceptions and

> *"The essential point about training is that it fits like a glove into the whole purpose of what the company is trying to do."*

enthusiasms and relationships going. The minute you try to do too much nationally it all becomes remote and misunderstood and you lose the central vitality of the thing.

Training through life is not a deeply ingrained concept in the management of this country. It has to become so.

If you are a Chief Executive, and would like to know more about Training and Enterprise Councils, please write to the National Training Task Force, [illegible] Hall Road, Bushey, Watford WD2 2EA giving the name and address of your company.

LEGAL COLUMN

Concern that justice may be out of balance

By David Churchill

TWO RECENT well publicised cases have shown the legal profession in a poor light.

In the first, two sisters face large costs despite winning a claim for damages after being wrongly accused of shoplifting.

In the second, a woman was sent to prison for a week – of which she served three days – after refusing to give evidence against a man accused of assault because, she claimed, she had been intimidated.

The cases may well have reinforced the widespread opinion that the pursuit of justice is fraught with difficulties for the ordinary man or woman in the street.

It is a view which the National Consumer Council (NCC) made public recently in its comprehensive treatise, Ordinary Justice, about what is wrong with the legal profession as we move into the 1990s. The treatise was largely written before Lord Mackay, the Lord Chancellor, outlined his controversial reforms in green papers published earlier this year.

However, its central and inescapable conclusion that, "many people are getting a raw deal from a legal system which fails to provide justice for all" is something that the profession will ignore at its peril, as it squabbles over Lord Mackay's proposals.

The NCC says in its book: "We want a legal system that is simple, quick, cheap and fair and which can be used by ordinary people to sort out ordinary problems." Fair enough, but what happens when things go wrong?

Complaints about lawyers are always a difficult subject to deal with for a profession as closed as the legal world has for long been.

The NCC points out: "There is no doubt that complaining about professional services raises more difficulties than complaining about most goods or services commonly bought in the high street."

After a number of false starts the Solicitors' Complaints Bureau was set up in September 1986 as part of the Law Society *but separate from* it with a different identity, address and management structure.

In January 1987 it started a new complaints procedure, involving a *predominantly lay* investigation committee established to provide an independent element in the proceedings.

At the same time, new statutory powers were introduced enabling the profession to investigate inadequate professional services or "shoddy work" as well as misconduct. They could also order solicitors to remit or pay fees to clients who had been given a poor service.

The NCC says: "There is no doubt that the bureau faces a very difficult task. It has to reassure a highly sceptical public that it is taking a firm line on poor quality work as well as having to maintain the *confidence of solicitors who* pay its bills and ultimately control its future."

However, the NCC's clear concern is that the bureau has become bureaucratic with the majority of complaints simply fading away.

It says: "The public are unlikely to be reassured if investigations are seen to be dragging on for years."

The NCC believes that there is a need to examine the bureau's fundamental structure, rather than tinker with the existing mechanism in response to a particular problem.

"The existing structure is over-complex," it says. "People do not understand how their *complaints will be processed* and the majority of complaints fall between various committees."

Consequently, the NCC believes that unless the Law Society can improve the system to win the public's confidence, an independent body should be set up by the Lord Chancellor.

Specifically, the NCC calls for a solicitors' complaints system that has:

● The power to investigate negligent work as an alternative to the courts and award compensation of up to £2,000.

● A single point of entry for requests for remuneration certificates and complaints of misconduct and shoddy work.

● Locally based conciliation.

● Independent research commissioned by the investigation committee into complaints that do not reach committees.

The NCC also agrees with the recent Civil Justice Review's recommendations that the profession should provide written professional standards to be enforced through a complaints procedure.

Complaints against barristers can be investigated by the Bar Council's conduct committee at present, with serious cases referred to an independent disciplinary tribunal.

Although the Bar is considering changes to this procedure, the NCC points out that the complaints system will remain concerned with disciplining barristers rather than providing consumers with redress.

It says: "In the long term, public confidence would be increased if complaints against barristers were investigated by an independent body."

Ordinary Justice: a consumer view of legal services and the courts in England and Wales; HMSO; £11.95.

Bar Council begins fight against reforms

THE BAR Council's £300,000 advertising campaign against the Government's green papers for reforming the legal profession got off to an interesting start last week, writes David Churchill.

Full page advertisements in national and regional newspapers suggested two themes. One carried the line: "300 years after a Bill of Rights, a Bill of Wrongs." It listed in some detail just what the Bar thought was wrong.

The other theme showed the nameplate of a solicitor's firm with the title, "Long, Gone, & Forgotten."

The advertisement explained the threat posed to the consumer in the Bar's opinion by the possible disappearance of high street solicitors if the Government's proposals were to go through.

Mr Desmond Fennell, chairman of the Bar, said: "We want to alert the public to the very real dangers which lie in the green papers – dangers which will undoubtedly reduce choice, increase costs and make it more difficult to obtain independent legal advice."

He said he was confident that the messages sent out would echo the public's concern about the quality of legal service in England and Wales.

However, he added: "The *public should not be taken in* by the Government's idea that unrestrained market forces will cure the ills of our legal system. We should not abandon the good parts of our present system if we cannot replace them with something which definitely serves the consumer better."

The Bar's advertising campaign is being co-ordinated by Saatchi & Saatchi, the advertising agency. Mr Fennell said: "We have chosen to launch our advertising now because we have prepared the ground.

"More and more people outside the legal profession are becoming aware of the issues. Our purpose is to convince them that the Government's proposal must be viewed critically. This is our first salvo in a paced campaign over several months."

LEGAL APPOINTMENTS

LAW SOCIETY ADMISSIONS MARCH 15TH 1989

AFZAL, Indiramani Nilakanthi B.A LL.M Mrs, Durham
ALEXANDROU, Andreas Erotheos B.A Mr, East Barnet, Hertfordshire
ARDEN, Karina Janice LL.B Miss, London
BRISCOE, Christine B.A Mrs, Doncaster, South Yorkshire
CAMERON, Alison Anne B.A Miss, South Shields, Tyne & Wear
CARTER, Mark Benjamin Richard B.A Mr, London
CHAN, Louis Wan Yat LL.B LL.M Mr, London
CHEUNG, Annie Wah
Solicitor of the Supreme Court of Hong Kong Miss, Happy Valley, Hong Kong
CULHANE, Simon Leonard James LL.B Mr, Guildford, Surrey
CUTHBERT, Julie Ann B.A Miss, London
EBORN, Andrew Martin James B.A Mr, London
ERRIDGE, Robin Richard B.A Mr, London
FAGAN, Gerardine Mary LL.B Miss, Wickham, Newcastle Upon Tyne
FARMER, Margaret Rose Mrs, Newcastle Upon Tyne
FREMPONG, Diana LL.B Miss, Nottingham
HARRISON, Richard James LL.B Mr, London
HUGHES, Susan Diana LL.B Miss, Altrincham, Cheshire
JACKSON, Alison Caroline LL.B Miss, Keighley, West Yorkshire
LEIGH, Simon Johnson Mr, Blackburn, Lancashire
LEUNG, Roger Wai Man
Solicitor of the Supreme Court of Hong Kong Mr, Chai Wan, Hong Kong
LIE, Susan Grace B.A. LL.B, LL.M Miss, London
LINDSAY, Iain Dixon LL.B Mr, Rochester, Kent
MAK, Hon Chiu
Solicitor of the Supreme Court of Hong Kong Mr, Central Hong Kong
MAKIN, Neville Gordon LL.B Mr, Bolton, Lancashire
MANSON, Lucy Elspeth B.A Miss, London
MOORE, Alan Gordon LL.B Mr, Liverpool
NAHAL, Gurbir Sing Mr, Heston, Middlesex
O'CONNOR, Mary Pelletier LL.M Ms, London
O'MALLEY, Agnes B.A, LL.M Mrs, Leeds, West Yorks
PACZYNSKI, Leon Stanley
Solicitor of the Supreme Court of Ontario Mr, London
PATEL, Kalpana B.A Mr, Wembley, Middlesex
PHILLIPS, Guy John B.A Mr, Richmond, Surrey
PITT-BROOKE, Richard Paul LL.B Mr, Leicestershire
PORISSE-GIRARD, Anne-Marie Brigitte Therese Miss, Brentford, Middlesex
PORTER, Angela Claire B.A Miss, Gerrards Cross, Bucks
REED, Lee Veronica B.A, M.A Mrs, Oxford, Oxfordshire
ROBINSON, Mark Andrew LL.B Mr, Cheshunt, Herts
ROLT, William James LL.B Mr, London
ROSSER, Cheryl Jane Ms, Minster Lovell Nr Witney, Oxfordshire
ROUNCE, Phillipa Mary B.A Miss, Oxford
ROWLEY, Lynne Karen B.A Miss, Rugeley, Staffordshire
SAMPSON, Jane Clare LL.B Miss, Liverpool
SHELTON, John Mark B.A Mr, London
SHEPHERD, Jill Patricia B.A Miss, London
SINCLAIR, Colin Gerard B.A Mr, Blackpool, Lancashire
SLOAN, Philip B.A Mr, St Helens, Merseyside
SUTHERLAND, Phillip Wayne LL.B Mr, Reading, Berks
SYED, Mary Catriona Balfour B.A Miss, London
TAILOR, Nina Mrs, Wembley, Middlesex
THORPE-MANSFIELD, Joanne Mary LL.B Miss, Southampton, Hampshire
TOOKER, Jay Allan Solicitor Of The Supreme Court Of New South Wales Mr, London
TOSSOUN, Mina B.A Miss, Surrey
VIDALE, Sandra Dawn B.A Miss, London
VISWALINGHAM, Kamini Jayaprakash Solicitor Of The Supreme Court Of Western Australia Mr, London
WALES, Sharon LL.B Miss, Ashurstwood, W. Sussex
WALKINSHAW, Fiona Mary B.A Ms, Gerrards Cross, Buckinghamshire
WALLIS, David Geoffrey B.A. Mr, Bickley, Kent
WONG, Kenneth Chai Kay Solicitor Of The Supreme Court Of Hong Kong Mr, 45 Des Voeux Road, Central Hong Kong

ARTS

Roy Square by Ian Ritchie Architects deserves a closer look

ARCHITECTURE

Dockland oasis of calm

Georgian streets in London are spare and repetitive and it is that which gives them their particular elegance. What passes for a street in the new Klondike in Docklands is nothing of the sort. Out there, the houses crowd the canals and dock basins, architecturally indecisive about whether to make an impression or to keep their heads down behind security gates, grills and other devices.

A new housing development on Narrow Street deserves a closer look. For once, the architecture is clear and precise in its objectives, intelligently receptive to its location and well thought-out throughout. Roy Square, designed by Ian Ritchie Architects, a small, young practice with a local office, starts with an advantage: unlike most Docklands sites, this is an existing street with a small pocket of early 18th Century houses.

Ian Ritchie and Gordon Talbot, job architects at Roy Square, know Docklands backwards. Their involvement in opposing the Siefert proposals for Limehouse Basin sufficiently impressed both the London Docklands Development Corporation and Tower Hamlets that they recommended the practice to Roy Sandu, the Indian businessman who was developing an unprepossessing industrial site for housing.

Roy Square is first of all remarkable for the simple clarity of its ideas, taken through to realisation. There is a straightforward street façade, classical in derivation, with a ground floor in which the fenestration serves as a rusticated base and the roof-terraces *of the upper-level maisonettes give a* cornice line. After that, the classicism is merely a guideline to proportions – as it was always meant to be. These are *not* contrived classical revival buildings.

The vitality of the square is within, but, unlike almost every other Docklands housing scheme, this is not a secret precinct of garaging and super-defensible space, but a calm garden visible through the glazed entrance. The approach is up steps, because the garden is raised above the basement car-park.

Inside the square, the overall impression is of exceptional lightness. The garden is set around a formal finger of moving water, spilling over and eventually trickling down beside the entrance steps. It could well be in Marrakesh or southern Spain. Clumps of bamboos whisper and flutter in the smallest breeze. An unusual garden, its delicacy is echoed in the translucence of the exteriors of the houses, which have tall conservatories lighting the living-rooms of ground- and first-floor flats. Privacy is provided and glare avoided by opaque glass panels alternating with clear ones.

Materials contribute to this impression of translucence. The tones of pale gravel and neutral materials for the hard landscaping are picked up by a pale buss brick with a pinkish tone. Detailing is simple and consistent, with metal window-frames which follow a grid whether for the smaller windows or the conservatories. The iron-work of the balconies and terraces, important elements within the design, follows suit.

Four storeys high, the top floor is stepped back to give a solid and generous terrace for the maisonettes. The conventional plan is inverted, with bedrooms below, offering an enor*mous open plan kitchen/living area* benefiting from its rooftop position, light and airy.

The fact that this development is so remarkable in Docklands is, in itself, lamentable. If the city in question were Berlin or Bologna, such uncluttered and effective architectural design would be the norm. That is not to damn the architects with faint praise, but merely to emphasise that their work is consistent with much architectural thought widely accepted outside these shores. Developers in Docklands have responded to the challenge of an architectural free zone with warehouse look-alikes or screaming yellow stock brick villas.

Ian Ritchie used to work with Norman Foster and is well thought of within his own profession. Yet, were it not for the unlikely patronage of the LDDC and the local authority, they would surely not have been chosen to develop this tricky site. In other hands it might quite easily have become a pastiche Georgian terrace, which might not frighten the horses but would have been yet another architectural cop-out.

Roy Square, slotted neatly into Narrow Street, supplies what is desperately lacking in Docklands, a sense of urbanity. You only have to look across the street to see what happens when the street line is lost and the housing pushed back to allow for parking spaces and security. The end result offers neither privacy nor the public pleasures of a street scene.

Reeling from the architectural Spanish omelette that Docklands has become, one mourns the plan that never was, the guiding hand which helps cities as different as Milton Keynes and Berlin to face up to themselves. London's Docklands are, and it *cannot be said too often, the missed* architectural opportunity of the century.

Gillian Darley

Eartha Kitt

SHAFTESBURY THEATRE

Alastair Muir

Eartha Kitt

The rasping purr comes out of the darkness before the candelabra, including the elaborate EK monogram that Liberace might have envied, have revealed its source: a figure gowned in a slit metallic gleam with turban to match. The face is square-jawed, the cheekbones prominent. The bulging curve of the forehead dominates the profile; the eyes can burn with a sultry anger that belies the teasing vocalisation. Here is a cat playing with her prey. "I wanna be evil," she hisses, "I wanna be cruel." For a moment she is all concentrated, baleful intensity, Tamora, Queen of the Goths (any RSC casting director in the house?).

The discipline of Eartha Kitt's dance training is apparent. The essence of her act is control, whether standing stock still in quizzical defiance, snapping out a musical phrase and waiting for the band to catch up, or holding a note with a vibrato-less voice rock steady in the belted climaxes, as true and unwavering as a steel girder. She can *hold* a consonant, not merely those feline rolling Rs but lascivious Ls. "Think of suicide?" she sings in the dry mockery of Sondheim's "Leave You?" from *Follies*; "Shall we dannnn - ce?" - the final sibilant is insolently tossed off, a vocal shrug of indifference.

For two hours she gives generously, sometimes accompanied by four male dancers (whom she evidently could – and probably does – teach a thing or two). The programme is selected from a list; on Saturday she disappointed only by omitting Coward's "Mad About the Boy," which should be perfect for that vocal schizophrenia – breathy little-girl innocence and baritonal tigerish insatiability – but made amends with the unannounced "Love for Sale." Her rendering of the Brecht/Weill "Surabaya Johnny," oddly inserting a hard J as in "Surabaja," was free, the verse spoken as much as sung, but superbly smoky in the refrain. She bounces through "My Discarded Men" (written with Bronski Beat), and her big routine with the dancers to two blues numbers (Ellington and Handy) is unsparingly energetic and beautifully encapsulates Kitt's ability to send up herself – or her image.

Nica Burns' direction gets things just right. Such big numbers are not overdone but rely on a witty, intimate cheerfulness that lead to the next musical button-holing confidence from the star with no sense of anticlimax. "C'est si bon" and the Turkish "Uska Dara" prompted anecdotal recollection, of forgetful adlibbing in the former and RCA's release of the latter in the hope that its failure would prove Kitt was no singer.

Speech is minimal and effective, free of gush or showbiz nonsense. "The Day that the Circus Left Town" is less hauntingly wistful than it once was, now briskly put over as mature reflection not over-anxious to brood over innocence lost long ago. "An Old-Fashioned Girl," opening the second half with the singer, now with hair up and in purple even more split, reclining on a bed suspended above the stage, is still brisker, with the Kitt's final confidential laughter implying surprise that it still exerts a spell.

The nine-strong band is excellent, the dancers vigorous and, apart from some coarse byplay with the mike from one of them, as lightly self-mocking as the star at her best. For a star she is. Predictably she ends with the song that stopped and stole the show each night at the recent run of *Follies*, "I'm Still Here," and elevates it into something more than a list of clichés. Eartha Kitt is magnificent. She is also original and authentic, her own woman, a one-off; to use a word devalued by show-business hype, she is unique.

Martin Hoyle

Merce Cunningham

LEICESTER EVENTS

Once, on tour in Spain in 1918, the Diaghilev company was obliged to perform "Scheherazade" with costumes and scenery from other ballets – and, said Lydia Sokolova, "It was the best performance we ever gave." Once, on tour in Europe in 1964, Merce Cunningham hit on something similar: to present anthologies of dances from individual repertory items, in costumes and scenery culled from a variety of works. The result, to which he gave the very 60s title of *Events*, later became his most usual way of presenting his dances in public, as seen in Edinburgh in 1979 and in Liverpool in 1980. Recently, they've become rarer. The Cunningham company has visited Sadler's Wells four times in the 80s – a fifth visit is due in November – but in programmes of separate repertory works. The four performances of "Leicester Events" were therefore the greatest coup of the city's international dance festival.

Some fact. Each Event (*I* caught three) was given in different costumes - one set by William Anastasi, one by Mark Lancaster, and one, yes, by the company's musical adviser, John Cage. The stage was decorated for the first pair of performances by the transparent rectangular objects of Jasper John's decor for "Walkaround Time" (after Marcel Duchamp's "The Large Glass"), for the latter two by the floating silver pillows designed by Andy Warhol for "RainForest." (These two *decors are part of scenic* history). The music, though occurring within specific parameters and drawing from much pre-set material, was new for each performance. It is Cunningham's wont today to select Events' choreography from works not in current repertory, and he assembled two separate selections from some ten works, one for Thursday and Friday, one for the two Saturday performances.

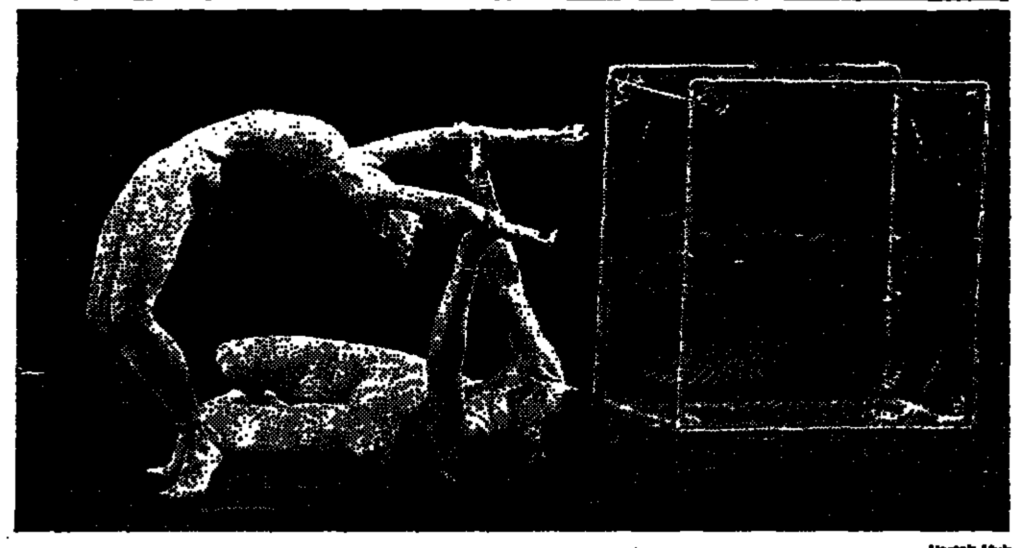
How can so wide a range of material cohere? And so wide a range of rhythm? Partly because diversity is already characteristic of any one dance. In a duet, or double solo, occurring early on in the Saturday Event, Victoria Finlayson on one side moved, oh so slowly and with such rapt absorption, in adagio movement, while Kimberley Bartosik moved briskly on the other side. One paid no heed to the other, and yet their two rhythms complemented each other like left and right hand of a piano score. And each solo was itself diverse. Finlayson's adagio motions here included slow shoulder-rolls, her fingertips resting lightly on her shoulders, while gradually wheeling one leg, then the other, *around in "grand rond* de jambe," this way, then that. Upper body working in rhythms and patterns quite unlike lower body; and yet somehow the two coalescing. Lucidity, precision, line, control: these were always in evidence.

Chances are you also follow *a Cunningham dance for* associations, for threads of character, atmosphere, even story; and this pays dividends. Cunningham's works have long been among the most remarkable dramas now before *the public. I'm reminded of his* constantly shifting range of language, tone and pace when I see performances of "The Three Sisters" or "The Cherry Orchard"; I thought of him during the Huston film, James Joyce's "The Dead." You see people occupied in their own private lives, but also as members of a community. When people address each other, make connection, play, interrupt, support or manoeuvre each other – these *things say what they say, and I* never watch Cunningham choreography without emotion. Events are the most fluid Cunningham dramas of all. Nothing happens, everything happens, lives proceed.

The strange poetic connectedness of each Event would not matter – and would not work – were it not that each was richly studded with dance information of the highest order. Highlights ... Dennis O'Connor pouncing through a marvellously bright series of various turning jumps; Kristy Santimyer unfolding her endlessly plush line through long phrases of turns, attitudes, ecartes and jumps; the serene Victoria Finlayson stretching in a sideways *crescent arc from foot to raised* hand, and then suddenly beating a raised foot to and fro in *retiré;* David Kulick arching into bridge-shapes on the floor; Carol Teitelbaum twisting pelvis, back and shoulders to this side and that while poised up on half-toe.

Finlayson's duets with *Kulick, Santimyer's with* O'Connor: these encounters each told their own story. All this with Warhol's wonderful silver pillows rippling against a black surround, or John's translucent objects in an *amber light ... luminous and* historic imagery in abundance.

Alastair Macaulay



Alastair Muir

Stage decoration was provided by Jasper Johns for "Walkaround Time"

The Pogues

BRIXTON ACADEMY

Trying to satisfy the high spirited, largely London-Irish crowd who have come along *for a St Patrick's Day fix is not* a task that lends itself to musical virtuosity or subtlety. Given The Pogues' reputation for rabble rousing, the combination threatened mayhem.

Yet their performance at the Brixton Academy, while occasionally drifting off into the kind of out of key singsong at home round a drink-sodden bar, had moments of maudlin beauty and gleeful abandon. Sure enough, showers of beer rained down, jigs were danced regardless of the bodies in the way, and harp and shamrock *decorations* and tricolours bobbed around. Yet rather than exploit this, The Pogues opened with a restrained "The Band Played Waltzing Matilda." The central figure was as ever the newly bearded singer Shane McGowan, whose teeth resemble brown sugar *crystals. Possibly a role model* for the audience, he, like many of them, had a pronounced slur. It is clear his infatuation with the Brendan Behan school of self-destruction is deep-rooted rather than roman*tic. But McGowan can rise* above the slob in him.

He could be the proud rebel, stirring patriotic emotions on "The Broad Majestic Shannon." There were also some predictable reels, and pandering to the crowd, for instance saying: "This one's for King Billy." "Fairytale of New York" proved that he is a gifted songwriter. He performed it evoking, like so many of his songs, the romanticism and yearning of the exiled Irish spirit. He likes to poke fun at other musical forms The Pogues embrace. Celtic folk laced heavily with pop and post-punk form the *foundations*. On "Yeah, Yeah, Yeah, Yeah," McGowan did a hilarious satire on early white rhythm and blues in the Mick Jagger school.

While this gargoyle's anarchic personality is central to *the band, his foil is Philip* Chevron, who stands poised strumming his blue guitar. He was emotive and captivating on "Thousands Are Sailing." The group's other mainstay guitarist, Terry Woods, opened for Shane on "Streets of Sorrow/Birmingham Six," a song now notorious for being banned by the BBC. This, the fifth Pogues' St Patrick's Day excursion, was not for the faint-hearted.

Spencer Bright

Giovanna d'Arco

FESTIVAL HALL

Verdi's seventh opera makes a superb vehicle for a star soprano. *Giovanna d'Arco* was first performed in 1845 with Erminia Frezzolini in the title-role and later revived for the composer's admired Aida, Teresa Stolz – two very different singers, who were here joined by a third of yet another hue, the Welsh soprano Margaret Price.

After concert performances of the opera in Munich and New York over the last few years, Price as Joan of Arc reached London on Thursday.. As abroad, no doubt, it was an evening to which voice-lovers eagerly looked forward. *Although it is unlikely that* Margaret Price is as easy at the top of the voice as her predecessor Frezzolini would have been, this is an ideal role for her, especially when the voice is in as fine shape as it was here.

Verdi's Joan of Arc is less a warrior, more an eloquent visionary, and the composer lavished on the part much of his finest early lyrical writing. *For Price this is a heaven-sent* opportunity and her singing in the cantilenas around the middle voice was quite unforgettable, the tone perfectly concentrated, the sheen of unblemished beauty. To hear Verdi's long phrases spun out in lines of such silken perfection is a pleasure that is rare indeed.

It is difficult to decide whether it was her two arias or the duet with Giacomo that was the highlight of the evening. Perhaps the latter, as Sergey Leiferkus was also in such *superb form. His is not perhaps* a true Italianate baritone, either in the production of the voice or (certainly) the pronunciation, but what exemplary projection this singer has, without any hint of breath in the tone.

Richard Fairman

ARTS GUIDE

March 17-23

MUSIC

London

London Philharmonic Orchestra, with the London Philharmonic Choir, conducted by Bernard Haitink, with Nigel Kennedy (violin). Bruch, Vaughan Williams (Sat). Royal Festival Hall (928 8800).

National Symphony Orchestra, conducted by David Coleman, a Spanish Fiesta. (Sun) Barbican Hall (638 8891).

Royal Philharmonic Orchestra, with the Brighton Festival Chorus, conducted by Walter Weller. Glinka, Sibelius, Orff. (Sun) Royal Festival Hall (928 8800).

BBC Philharmonic Orchestra, conducted by Edward Downes. Beethoven, Schoenberg. (Wed) Queen Elizabeth Hall (928 8800).

BBC Symphony Orchestra, conducted by David Atherton, with Martin Roscoe (piano). (Thurs) Barbican Hall (638 8891).

Royal Philharmonic Orchestra, conducted by Walter Weller, with Radu Lupu (piano), John Birch (organ). Beethoven, Mozart, Saint-Saëns. (Thurs) Royal Festival Hall (928 8800).

Danish String Quartet, world premiere, Nørholm's Quartet No. 8, with quartets by Schubert in D minor, Death and Maiden and Ravel. Wigmore Hall, Wigmore Street. (935 2141)

Paris

Paul Kuentz Orchestra conducted by Paul Kuentz, Maurice André, trumpet. Mozart, Hummel, Tartini, Vivaldi, J.S. Bach (Mon) Salle Pleyel (456 38873).

Ensemble Orchestral de Paris conducted by Theodor Guschlbauer, Raphael Oleg, violin: Kodaly, Mozart, Schubert (Tue) Salle Pleyel (456 38873).

Jeune Orchestre Symphonique d'Europe conducted by Olivier Holt. Meyerbeer, Mendelssohn (Wed) Salle Pleyel (456 38873).

Nouvel Orchestre Philharmonique and Radio France Choir conducted by Hans Graf. Carl Maria von Weber – Die Drei Pintos, a Gustav Mahler orchestration in concert version (Thur) Chatelet (402 88828).

Orchestre National d'Ile-de-France conducted by [illegible], Torleif Thedeen, cello: Dvorak, Rimsky-Korsakov (Thur) Salle Pleyel (456 38873)

Amsterdam

Netherlands Philharmonic with the Excelsior Oratorio Society, St Vitus Boys' Choir and soloists. Bach's St Matthew Passion (Mon, Tues) conducted by Anton Kersjes with massed choirs under Bouwe Dijkstra (718 345)

Rotterdam

Rotterdam Philharmonic, choirs and soloists, James Conlon conducting. Bach St Matthew Passion (Thur). Doelen (413 2490)

Frankfurt Opera Orchestra conducted by Alberto Zedda, a concert version of Rossini's opera *Mose* with Manfred Schenk in the title role. It also features: Eduardo Villa, Lajos Miller, Alejandro Ramirez, Valentin Jar, Adalbert Waller, Ilse Gramatzki, Mara Zampieri, Doris Soffel. Alte Oper (Thurs).

Rome

Via Della Conciliazione. Handel (Concerto Grosso), Vivaldi (Il Favorito) and Haydn, with harpist Cinzia Maurizio and violinist Giuseppe Prencipe (Fri) and Pierluigi Urbini conducting. Also Strauss's Burlesque in D minor for piano and orchestra Der Rosenkavalier suite (Sun, Mon, Tues) (654 1044).

Milan

Teatro Alla Scala. Riccardo Muti conducting Mozart's D minor Mass with soloists Edita Gruberova, Ann Murray, Frank Lopardo and Giorgio Surjan; also Goffredo Petrassi's Chorus of the Dead" based on the poem by Giacomo Leopardi (Mon) (80.91.26).

New York

New York Woodwind Quintet. Edison Denisov, Cecil Taylor (world premiere), Harrison Birtwistle, Carl Nielsen. Merkin Hall (Tue) (362 8719).

New York Philharmonic conducted by Erich Leinsdorf with Maria Ewing, soprano, and New York Choral Artists directed by Joseph Flummerfelt. Brahms, Debussy, Berlioz. Avery Fisher Hall (Tue) (874 6770).

Original Instruments directed by Malcolm Bilson. Mozart, Beethoven. Merkin Hall (Wed) (362 8719)

Manhattan Philharmonic Orchestra conducted by Peter Tiboris. Mozart, Verdi, Vaughan Williams, Mendelssohn, Haydn, Effinger. Carnegie Hall (Tue) (247 7800).

New York Philharmonic conducted by Klaus Tennstedt with Benita Valente soprano. Schubert, Mahler (Thur) (874 6770).

Washington

Chamber Music Society of Lincoln Center directed by Charles Wadsworth. Brahms, Faure, Dvorak. Kennedy Center Concert Hall (Wed) (254 3776).

National Symphony Orchestra conducted by Zdenek Macal. Zwilich, Schubert, Smetana. Kennedy Center Concert Hall (Thur) (254 3776).

Chicago

Chicago Symphony conducted by Leonard Slatkin with Mark Peskanov (violin). Also Bartok, Schuman, Janacek. Orchestra Hall (Tue) (435 0012).

Waseda Symphony Orchestra of Tokyo. Takemitsu, Ishii, Stravinsky, Dvorak. Orchestra Hall (Wed) (435 0012).

Chicago Symphony conducted by Leonard Slatkin. Haydn, Druckman, Brahms. Orchestra Hall (Thur) (435 0012).

Tokyo

Japan Philharmonic Orchestra, conducted by Tadaaki Otaka, with Mari Tsuda (piano). Grieg, Mozart. Suntory Hall (Mon, Tues) (234 5911).

Eikeo Watanabe (piano) Schubert, Liszt, Prokofiev. Tokyo Bunka Kaikan, recital hall. (Mon) (289 9999).

Jennifer Bate (organ). Bach (Wed), Widor, Gounod, Saint-Saens. Suntory Hall (Thurs) (505 1010).

SALEROOM

Visions by Blake

A William Blake sketchbook last recorded in 1864, and *assumed lost, resurfaced* at Christie's last year, and comes under the hammer tomorrow. It contains 49 drawings by Blake, the majority of which are fully worked up visionary portraits of historical figures, *and six landscape drawings* by John Varley, and is witness to one of the more extraordinary pseudo-scientific projects of the 19th century.

The visionary heads were the result of several nights' drawing with John Linnell and John Varley. Blake, on Varley's request, would summon up and record the visages – and conversations – of famous figures from the past. They are not confined to his more typical gallery of heroes, saints and poets: we find notorious criminals, murderers and wicked women – Charlemagne to Colonel Blood, thief of the crown jewels, and the seductive *Saxon princess* Rowena.

Blake's ability to see spirits was legendary, and Varley hoped to harness it to create a system of what he called zodiacal physiognomy - a combination of the "sciences" of astrology and phrenology. How seriously Blake took Varley's theories is not clear.

As would befit a scientific study, Blake's idiosyncratic pencil drawings clearly define shapes of head, forehead bumps, and length of nose. *There are images as intriguing* and compelling as one might expect from the author of "The Ghost of A Flea." Others verge on the comical. This is the second Varley-Blake sketchbook to come to light in recent years; *a smaller folio, since* split up, of a number of working drawings for this project was unearthed at Penkill Castle in 1967.

Christie's has estimated the sketchbook at £500,000, a figure based on the break-up (heaven forbid) value of the drawings. What this quirky, scholarly find will realise on Tuesday is anybody's guess.

An impressive oil portrait of a young girl seated in an armchair by Umberto Boccioni, an artist rarely seen on the market, is the highlight of Christie's modern art sale in Rome on the same day. Painted in 1910, the year of the birth of *Figurative Futurism*, and demonstrating an awareness of Cezanne, it is expected to fetch £800-£900m.

The star turn among Sotheby's musical instruments on Thursday is a 1742 Cremona violin by Joseph Guarneri del Gesu, formerly owned by Henry Holst. Estimate £400,000-£600,000.

Susan Moore

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Monday March 20 1989

The missing kulak

THE PLIGHT of Mr Mikhail Gorbachev, in his efforts to reform the Soviet economy, increasingly resembles that of A.A. Milne's unfortunate bear, who "whenever he thought it was time to begin, he couldn't because of the state he was in."

He began with an attack on alcoholism, inefficiency and corruption, using the conventional methods of vigorous exhortation, punitive legislation, bureaucratic reorganisation and exemplary sanctions. Finding these ineffective he then gave priority to freedom of information and political reform. The intelligentsia was successfully mobilised, but the masses remained unimpressed, for one very simple reason: there was still just as little food in the shops.

So now he has turned to agriculture, where many observers had expected him to begin. This, after all, was where he had most personal experience, and where reforms in some other socialist countries, notably China, have produced the quickest and most convincing results.

He has had the courage to begin by dismantling the vast central directorate, "Gosagroprom", which he himself had established; and he has managed to overrule the views of his conservative rival, Mr Yegor Ligachev, who until 10 days ago was still trying to make out that all the collective farms needed was for the state to spend more generously on improving the quality of fertilisers and other rural services. Mr Gorbachev rightly pointed out that massive investment in the past had had little effect on production, because the problem is structural.

Reasons for doubt

There are, unfortunately, several reasons to doubt whether the new policy will produce results quickly and convincingly enough to rally public opinion to Mr Gorbachev's side. The parallel with China is misleading in several respects. China at the end of the 1970s was still an overwhelmingly agrarian economy and in many areas a subsistence one. The experience of full collectivisation there was only a decade and a half old, and was already breaking down at the grass roots before reform was proclaimed from the top. Once peasants were free to cultivate their own holdings and fix their own prices productivity increased sharply, at once generating a surplus which could be sold for cash and freeing labour for employment in the towns.

The Soviet Union, by contrast, is now a predominantly urban economy. The terrible experience of forced collectivisation, with the actual starvation that accompanied it in many parts of the country, is already 60 years old. The most enterprising and successful farmers – the kulaks – were physically liquidated by Stalin, and the tradition of an independent self-employed peasantry (never very deeply entrenched) hardly survives even as a folk memory. Many of the younger rural generation have already migrated to the towns, and a rise in food prices might well now provoke more urban discontent than rural effort.

Scope for obstruction

In such circumstances only a very bold policy, freeing all aspects of the economy at once, would offer a real chance of success. But Mr Gorbachev for political reasons is being obliged to proceed cautiously. Collective farms are not to be dismantled, and the new systems of tenure are to be strictly voluntary. Prices are to be freed only gradually, and not for all products. In other words, the rural bureaucracy remains in place and will be able to dictate the terms of any leases it grants, control the supplies of machinery, fertiliser, building materials etc, and very likely also marketing. There will be all too much scope for obstruction of the reform by people with no obvious interest in its success.

Mr Gorbachev rightly stressed, in his speech to the plenum, that Stalin's brutal collectivisation of the countryside was a key ingredient in the construction of the whole dictatorial system of "administrative command" which the Soviet Union is now struggling to break. But he stopped just short of spelling out the corollary, which is that an equally bold restoration of private farming would be a key ingredient in any successful policy to liberate Soviet energies and democratise Soviet society.

The monitoring of safety

IS PAUL Channon, the UK Transport Secretary, just unlucky, or are there more fundamental reasons for the difficulties in which he finds himself over aviation and railway safety?

Mr Channon spent much of last week trying to explain why a detailed warning about the dangers of cassette bombs was not received by airlines until several weeks after a similar bomb exploded on a Pan Am flight over Lockerbie.

His defence is that the details of how the bomb worked were not especially important because an outline warning had been sent earlier. Even if this is true, it seems an extraordinary error of judgment for the Transport Department to transmit its anti-terrorist warnings through the post, especially at Christmas. The incident can only heighten concern about the way in which the Transport Department discharges its regulatory responsibilities.

For example, the Civil Aviation Authority (CAA), which is responsible for air traffic control and the structural integrity of aircraft, has wide-ranging powers and an independent chairman. But one has to go quite a long way down the Civil Service hierarchy – to assistant secretary level – to find someone with direct responsibility for aviation security. And he spends half his time dealing with aircraft noise and other environmental matters.

Bomb warnings

Further down the ladder, more junior civil servants make day-to-day decisions on matters such as bomb warnings and are said to be in constant touch with the intelligence community. But most long-term planning is done by the National Aviation Security Committee, which brings together civil servants, the airlines, airport authorities, the police and other security organisations, and the CAA.

Higher safety standards impose costs, whether in the form of extra hardware, airport congestion, or delays to passengers. There must be a question whether the security committee is the most effective body for imposing the safety rules which are needed. At the very least, there should be some consumer representation on the security committee.

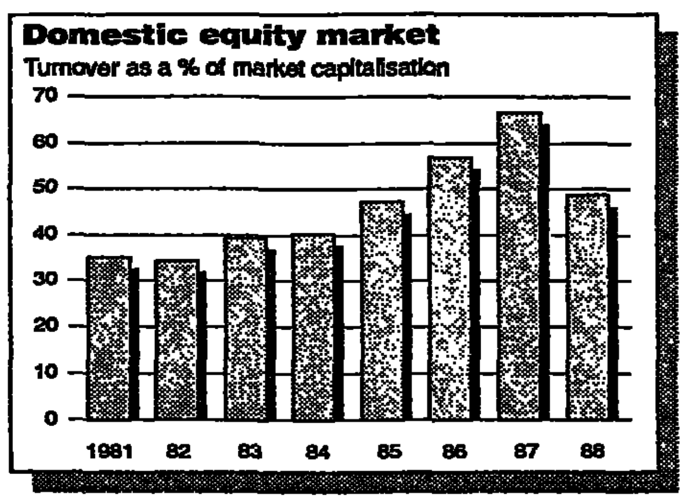
The structure of the committee would not matter if security could be shown to be effective on the ground. Yet Heathrow in particular has repeatedly been shown to be vulnerable to infiltration by unauthorised personnel, despite the high-profile presence of armed police. The police operate a special security division at Heathrow under the command of a senior officer. But he has to co-ordinate not only his own forces and BAA's security staff, but 150 separate security operations conducted by the airlines using the airport.

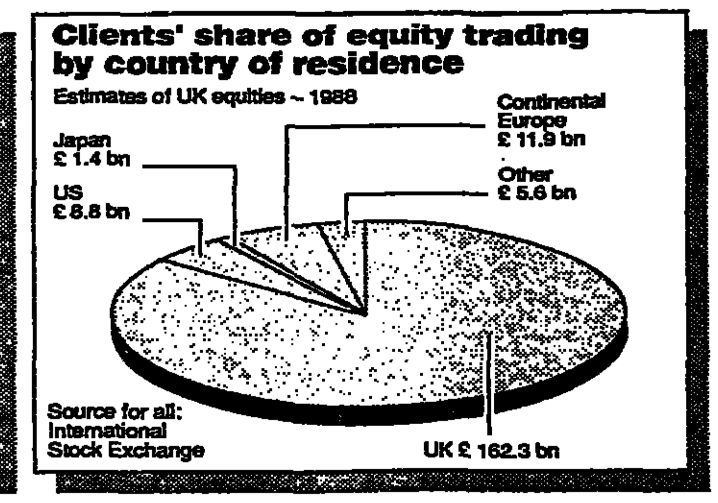
Errors and overwork

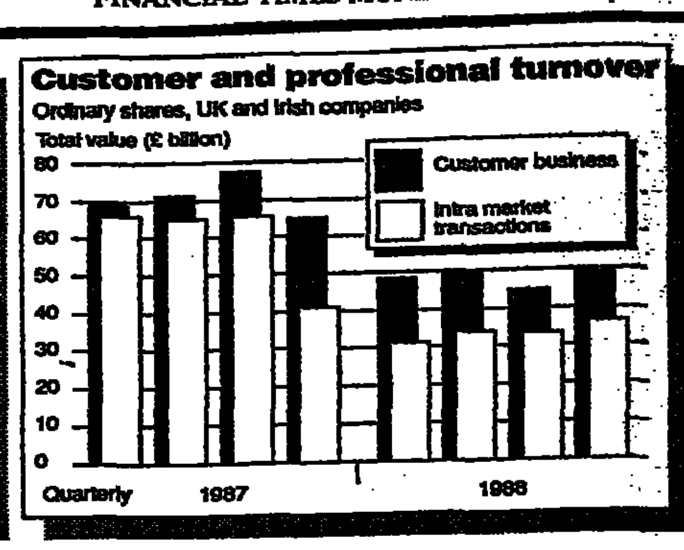
The situation on the railways is less complex, but possibly even more worrying. The reports about the attitude of London Underground to safety which emerged from the public inquiry into the King's Cross disaster are topped only by the evidence of administrative errors and overwork among British Rail staff which is emerging from the inquiry into the subsequent accident at Clapham.

The organisation which is responsible for monitoring safety on both networks is the Railway Inspectorate, a nominally independent arm of the Transport Department. But the inspectorate reports to the same senior civil servant who is responsible for policing the Government's squeeze on subsidies to both railways.

Given the high capital cost of safety improvements, this arrangement must raise questions about the Inspectorate's independence, especially since it has been starved of staff for some years. It is also not clear that the Inspectorate has powers to comment, for example, on the shortage of experienced signals staff caused by BR's low wages. One obvious improvement might be to transfer the Inspectorate to another department, say Trade and Industry, which already has some railway responsibilities, or to give it a greater degree of independence.







John Plender reports on acrimony in London's securities markets

The row over the rules of the game

Not so long ago the people who mattered in the London securities markets preferred to sort out their differences behind closed doors. Today things could hardly be more different. In the aftermath of Big Bang and the Crash of '87, leading City figures are openly trading home truths. There is room for argument about who really does matter in the City of London. And the differences that divide members of London's International Stock Exchange suddenly threaten to precipitate a first class City row. Some are calling privately for Mr Stanislas Yassukovich of Merrill Lynch, the US securities giant, to quit his position as deputy chairman of the exchange.

Ostensibly, the debate is about technical issues. But xenophobia lurks in the background. Recent changes in the exchange's dealing rules have led to accusations by American securities firms that the old London stockjobbing fraternity is trying to recreate a British-run club in the domestic equity market. "We don't like the way these changes were done within the confines of a limited group of people," says Mr Jacques Gelardin, who heads the European operations of American Express subsidiary Shearson Lehman Hutton. "They give international firms a sense that we're going back to the pre-Big Bang period, with a rapidly closing inner circle."

For their part, some former members of the old London jobbing fraternity argue that what is good for the big domestic firms is good for the market and that foreign houses have abused the system. According to Mr Peter Holloway, head of equity market making at Barclays de Zoete Wedd, the market has been "a paradise for parasites," who should stop complaining, sit back and wait for the big domestic firms to create a better market environment.

These altercations, and the related argument about the proposed reform of the settlement system, reflect a deeper malaise about the nature of London's Big Bang as market makers' losses are estimated to have topped £500m at an annual rate in the final quarter of 1988. They also raise questions about the future of the International Stock Exchange, which emerged from the marriage of the old domestic exchange and the foreign securities houses that dominated the much larger Eurobond market.

Part of the purpose of that merger and of the Big Bang itself was to rectify the parochialism of the Stock Exchange cartel by uniting the two groups, thereby enhancing London's international role in the European time zone. The Eurobond houses which were doing increasing business outside the exchange in such leading British shares as ICI and Glaxo were brought into a screen-based market which used the exchange's new SEAQ electronic quotations system.

Now some British houses appear to question whether the Stock Exchange really needs the foreigners as much as the foreigners needed the Exchange. The chief executive of one of the biggest domestically owned integrated securities firms, who prefers to remain anonymous, argues that it would not make a halfpennyworth of difference if the Americans were to go elsewhere.

This is probably true in the limited sense that American orders accounted for only 4.6 per cent of the Stock Exchange's £190bn turnover in UK equities last year (see chart). But such aggressive sentiments help explain why the Bank of England is beginning to worry that wider interests may be ignored in the row. So what are the rights and wrongs of the situation?

Much of the argument reflects resentment over "fairweather" market making. Because market makers had an obligation to deal with each other on the basis of the prices and sizes of bargain they advertised on the SEAQ screen, American firms in particular could always rely on fellow market makers to unwind deals for their US clients. But some failed to maintain a consistent presence in the market, despite enjoying the privileges of exemption from stamp duty and the right to borrow stock from the big investment institutions. "Their screen commitment," says BZW's Mr Holloway, "was only as good as their ability to pass the parcel."

At the same time the larger market makers argue that the requirements for public disclosure of bargains – the "transparency" rules – were so rigorous that firms were being held to ransom when they reported large trades. Competitors were able to engage in spoiling tactics, adjusting their prices to undermine those who had taken on large positions.

As a result, firms with a high proportion of institutional client business such as BZW and Phillips & Drew saw little point in making their own capital available to people who were contributing little to the market. Last autumn they temporarily ceased to advertise quotes in any size on the screens and became increasingly reluctant to deal with fellow market makers.

Others, such as Warburg Securities and Smith New Court, continued to trade willingly with all comers. But Mr Michael Marks of Smith argued that market makers would be more willing to risk their capital in the interests of clients if disclosure requirements were relaxed. The response of institutional investors, some claim, was to by-pass the market and deal with each other direct.

Against that background a committee at the Stock Exchange embarked on the first full-scale review of the dealing system since Big Bang. It was chaired by Mr Nigel Elwes of Warburg Securities, which acquired its market makers via the takeover of Akroyd & Smithers, one of the two largest jobbing firms before Big Bang. Mr Elwes called for the removal of the market makers' obligation to deal with each other and exemption from public disclosure of prices of large bargains until the following day.

Some British houses question whether the Stock Exchange needs foreigners as much as the foreigners need it

Since the measures were presented as an interim solution which need not affect the ultimate outcome, few on the exchange's Council objected. But Mr Yassukovich of Merrill Lynch, together with the representatives of Shearson Lehman Hutton and Goldman Sachs, voted against. They felt that the decision had been rushed through with inadequate consultation, especially with the traded options and futures markets where reduced information about prices in the cash market is now said to have forced market makers to deal more cautiously. The dice were being loaded, said the dissidents, in favour of the old London club, of which Mr Elwes was a representative, and their heavy investment in London was being jeopardised.

On the other side feelings are now running high over Mr Yassukovich's readiness to take a stand against the new rules, despite being the exchange's deputy chairman. His position is further complicated by his role as chairman of the Securities Association, which supervises the exchange.

And there are allegations of sour grapes. When London became the most open exchange in the world after Big Bang the Americans were expected to cut a swathe through the equity and gilt-edged markets, which were modelled respectively on America's Nasdaq over-the-counter market and the US Treasury bond market. But they signally failed to do so, partly because of a shortage of high quality traders, partly because old customer loyalties die hard if standards of service are maintained. Critics add that it is no coincidence that the most vociferous complainers, Merrill and Shearson, were over-ambitious in their investment in grandiose London offices and their initial foray into the market.

Other Americans who started later and more modestly are less worried. Morgan Stanley International, for example, is unconcerned about the loss of the market makers' mutual obligation to deal because 85-90 per cent of its UK equity business originates with clients; it is not dependent on other UK market makers to unwind its clients' business. According to Mr Charles Giessen, who heads its equity market making activity, the firm planned its business on worst case scenarios and "didn't build a palace." It has made profits in UK equities from the outset, he says.

Nor are hostilities conducted on purely Anglo-American lines. Some British market makers are as antagonistic about James Capel, the broking subsidiary of Hong Kong and Shanghai Bank, as they are about Merrill Lynch. Capel does not make markets in UK equities, but does take positions on its own account, leading to allegations that it is free riding on others' capital.

Yet in the final analysis the case for sacrificing transparency in the interests of liquidity is arguably academic. For it is hard to find many people who believe that liquidity was being seriously affected under the old rules or has changed much under the new. Mr David Prosser, Group Director (Investments) at the insurance giant Legal and General, speaks for many when he says this is not an investors' problem. Looking back at the period since Big Bang he says "we've had good liquidity in large companies throughout." It is hard to find anyone who can substantiate the claims that business was by-passing the market.

At the root of the squabble is the underlying crisis of profitability: the shortage of business to support the huge investment in office blocks, dealing rooms and staff made in London on the assumption of huge increases in volume after Big Bang. With market leaders such as Phillips & Drew and James Capel reporting big losses in the past month anxiety now borders on panic.

Significantly, both Mr Gelardin of Shearson and Mr Holloway of BZW are at one in believing that full transparency would work if trading volume were higher. But since the last quarter of 1986 when Big Bang took place equity turnover has increased by only 16 per cent. After the freak years of 1986 and 1987 investors are once again trading less than a quarter of their portfolios each year (see chart). So the larger players are engaged in a hugely expensive game of chicken, in which all are highly sensitive to any change that might force them to drop out before the others. Mr Gelardin argues that tampering with the market rules actually worsens the situation by putting off the day on which firms confront reality.

The protracted process of attrition is also exacerbated by a more fundamental problem. As Merrill's Mr Yassukovich points out, the speed with which buyers and sellers can reach each other electronically is reducing the scope for the market maker to add value for the customer in basic securities trading. Yet the cost of skills and equipment is rising and more capital is needed to cope with market volatility. "The return on capital in trading securities is reducing all the time," says Yassukovich, "and it is hard to see what would restore traditional levels of profitability: We're watching a financial function dying."

No doubt the warring factions in the market will ultimately reach a compromise on the dealing system. But the experiment in liberalisation started by Big Bang is clearly an enduring and painful phenomenon. The domestic equity market has moved from being a protected domestic backwater to a place where great tidal waves of global capital create destabilising eddies and whirlpools, and where banks and securities firms of every nationality battle viciously for supremacy or survival. London is caught in a maelstrom where it is impossible to escape the powerful backwash of changes in regulation, taxation and portfolio preference in the much larger financial centres of New York and Tokyo.

Perhaps the surprising thing is that tensions within the International Stock Exchange have not been more acute in a market that is hostage for the first time to overwhelming global forces.

OBSERVER

Donkey work pays off

■ One Minister who did much of the work on last week's budget has received very little of the public credit, or blame. He is Norman Lamont, the Financial Secretary to the Treasury or FST. He was even omitted from some of the newspaper photographs of the Treasury team.

Oddly enough, for rather a colourful figure, Lamont does the donkey work. He has been looking after tax at the Treasury under Chancellor Lawson for the last three years. And, luckily for him, this turned out to be a donkey worker's budget. Nothing much of the macroeconomic; largely a number of technical changes, the importance of which will become clearer as the Finance Bill is introduced next month. Lamont will have a lot to with that.

It must be quite hard being FST under Lawson, since the Chancellor once held the job himself, which was when he introduced the Medium Term Financial Strategy. But Lawson is not always overly interested in detail and gave a lot of responsibility for this year's budget to Lamont.

A few months ago, that might not have made much difference. The budget might might still have been macro. But as the case for a "boring" – or neutral – budget became stronger, Lamont came into his own. For it meant using the tax system for reform, and that was Lamont's subject.

No-one would claim that the changes in the national insurance contributions – perhaps the most striking single item in the budget – came from the FST alone. Lawson himself was very much involved, along with outside advisers such as Professor Mervyn King of the London School of Economics. But there were other subjects like Personal Equity Plans (PEPS) and Employee Share Ownership Plans (ESOPS). They have been around for a while in Lawson's Chancellorship, but have never quite taken off. Lamont was entrusted to put some pep into them.

There were also pensions and life assurance where the Finance Bill will introduce substantial changes. The broad thrust of the measures it to encourage more and more people to invest in shares directly. On pensions it is to steer them away from occupational schemes towards greater personal choice.

Lamont is at home in all that. The detail of the Finance Bill will be very much his. During the debates he will have a chance to raise his head above the donkey work and become a major front bench figure. The eyes, obviously, are on the Cabinet in the autumn.

"Hey look, do I tell you all *my* problems?"

One at a time

■ Gut instinct always told one that Wales would win their last international match of the season against England at Cardiff on Saturday. And it was not only because England had not won there since 1963; it was more that the Welsh, having lost the rest of their games this season, would be bound to fight back, especially against the English. I should have bet on it, but did not. In the end it was rather closer than I had expected.

Back, however, with a perennial complaint that must be shared by television rugby-watchers all over. Why, when there are so few rugby internationals, do two of them have to be played on the same day? We like to watch them live and we like to watch them whole. It is not good enough simply having extracts from the second match which, like Saturday's encounter between Scotland and France, looked a much more entertaining game than Wales against England. What is the reason for this? There is surely no shortage of viewers throughout the short season.

Canada House

■ The Canadian National Capital Commission, which looks after the country's national heritage in Ottawa, wants to buy Earnscliffe, the residence of the British High Commissioner, and turn it into a memorial for Sir John A MacDonald, the first Canadian Prime Minister.

MacDonald, who was born in Glasgow but emigrated to Canada in 1820 at the age of five, lived in the house for eight years until his death in 1891. A grey stone building situated directly opposite External Affairs, Earnscliffe was the only house that he ever owned in the nation's capital.

A spokesman for the High Commission says that no official approaches regarding a possible sale have been received, but that the Commission, which has owned Earnscliffe for 60 years, has no desire to move.

The NCC says that the matter of how to acquire the house is "under consideration by the government".

Prime site

■ Almost opposite the Kensington Odeon, although not every passer-by will have noticed, stands the Commonwealth Institute. The Institute can also be seen from parts of Holland Park. It is, in its way, rather successful, attracting up to 400,000 visitors a year. It was also recently listed by the Department of Environment as a Grade 2 starred structure, which sometimes seems like a kiss of death.

Yet the Institute has never quite made the most of either its opportunities or its site. It is now embarking on a programme of redevelopment, along with much of Kensington High Street including the Odeon.

The schedule is tight: applications with plans to be received by June 9 this year and with the successful candidate being informed on October 6. One hopes that this competition is being widely advertised, for both the Commonwealth and the Kensington site deserve something good.

Easy life

■ They take things easily in Birmingham. A firm called Pauline Hyde & Associates Ltd has finally caught up with 1992 and all that and is holding a seminar about the personnel aspects. After raising the question of whether we shall be flooded with an invasion of Southern Italians mopping up the lower paid jobs, the invitation goes on: "Most of the great messages are short – which is why our seminar only lasts a morning. If you would like to play golf at the Belfry in the afternoon as our guest, you will be very welcome."

Stefan Wagstyl reports on growing anxiety in Japan over the concentration of wealth and power

Outside the charmed circle

"BANZAI" said the taxi-driver when he heard this month of the arrest of Dr Hisashi Shinto, the most powerful figure so far to fall victim to the Recruit financial scandal.

"They've got him at last. Great news. Ordinary people are sick of these men and their money. If they get Nakasone (the former prime minister) we'll have a party."

People interviewed on television tell the same story, if in less colourful language. The affair, which concerns the distribution of bribes in the form of cut-price stocks to influential people, has provoked an outcry about the huge amounts of money sloshing about in public life. Dr Shinto, in the popular view, is getting his come-uppance.

The hearsay evidence is borne out by opinion polls which show that Recruit has pushed public dislike of the ruling Liberal Democratic Party to its highest-ever level. According to the Centre for Political Public Relations, an opinion study centre, 26 per cent of people now "strongly dislike" the LDP; this compares with zero normally and 2-3 per cent at the height of the Lockheed affair in the 1970s, the last serious scandal.

This popular resentment has yet to translate itself into support for any other party, not least because the Parliamentary opposition, including the Japan Socialist Party, has been touched by the scandal. But many people are angry with the political establishment as a whole. Mr Takayoshi Miyagawa, a political analyst, says: "People want to vote for a new party which doesn't yet exist."

Perhaps for the first time, the politics of envy is at work in Japan. People who used to pride themselves on its egalitarianism are becoming aware of a widening gulf between themselves and a rich and powerful élite.

The allegations of widespread corruption at the heart of the Recruit affair drive the point home. It is has long been taken for granted that politicians, and others with influence, make money on the side. But the average Japanese shakes his head in disbelief at reports that shares worth up to Y150m changed hands at a time — 20 times the average annual income.

The roots of this resentment lie in the great disparities of wealth and lifestyle which have emerged in the 1980s.

Japan remains one of the most egalitarian of modern societies. Wages and salaries are more evenly distributed than in the West. Education is still the key to entering a top-flight career in a government ministry or a big company. About 90 per cent of Japanese say they belong to the middle class. They cherish the idea that all are sharing equally in Japan's economic success.

But this sense of equality has been undermined in the 1980s by the rapid rise in land and stock prices. While the value of most people's land holdings have doubled in the 1980s, those of the wealthiest 20 per cent have trebled. In Tokyo the cost of buying a house has gone beyond the dreams of the average salaried worker. Couples are taking on two-generation mortgages which their children will have to pay off.

The booming financial markets have sharpened social disparities by giving those with surplus funds a quick route to doubling and re-doubling their money. Mr Koji Kakizawa, an LDP Diet member, says: "In recent years people have got nothing from labour and everything from capital."

Moreover, the rich are spending their money as never before. Even 10 years ago conspicuous expenditure was frowned upon in many circles — now it is becoming increasingly acceptable to flaunt wealth. Japan has surpassed the US as the world's biggest market for diamonds. At Mitsukoshi, the posh department store, this year's traditional New Year lucky bags included one for Y500m containing a Picasso and a Renoir.

At the financial peak of society, the accumulation of capital has created a new elite, interested not only in wealth but also in power. In the immediate post-war period politics was open to talent. Now families connected by blood, marriage and patronage are taking the place of the old aristocracy which was largely, though not entirely, swept away by the war. Inherited wealth and position have become the keys to power.

The rise of the new establishment is most evident in the Diet where about one third of the ruling LDP members are sons or sons-in-law of former politicians. Mr Shokei Arai, an LDP member, says he is the only ruling party Diet member out of 14 under 40 not to have family connections to another politician. He condemns what he calls "the privatisation of public interests."

Political dynasties abound. Nearly every post-war prime minister has a son or son-in-law in politics. Mr Noboru Takeshita, the current prime minister, has a daughter married to the son of Mr Shin Kanemaru, a party elder statesman. Mr Yasuhiro Nakasone, the former prime minister, has a son in the House of Councillors, the upper house. His predecessor, Mr Zenko Suzuki, has a son-in-law, Mr Taro Aso, in the Diet. Mr Aso is in turn the grandson of Mr Shigeru Yoshida, another former prime minister, and a brother-in-law of Prince Tomohito, a cousin of the emperor. The families of all but three of Japan's 17 post-war prime ministers have in one way or another allied themselves by marriage to the Imperial family.

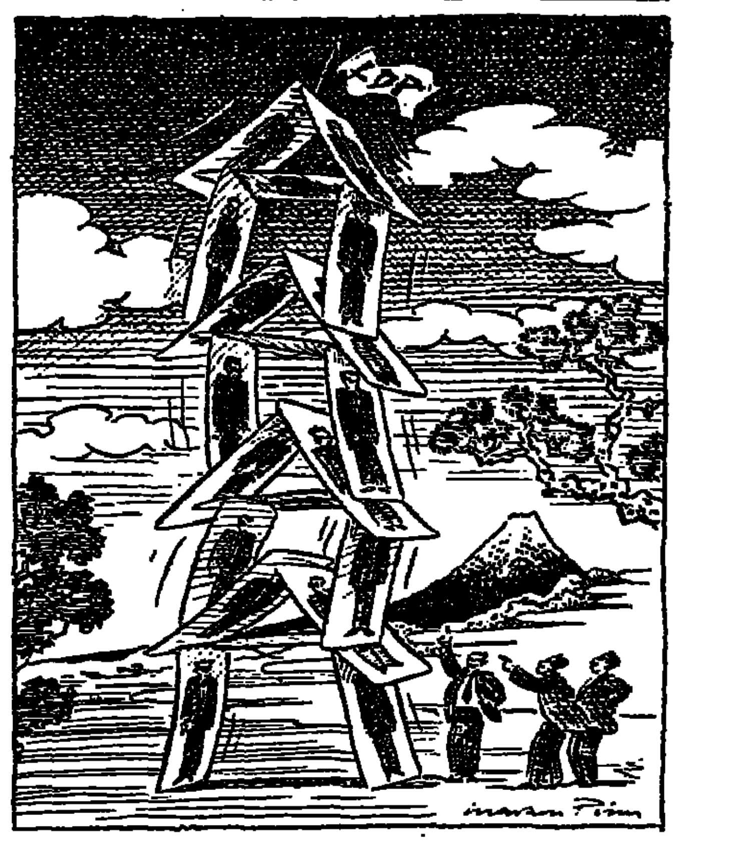
As well as status, marriage secures money. Mr Takeshita and Mr Nakasone both have daughters married into families owning construction companies — Takenaka and Kajima. The construction industry is one of the LDP's most generous supporters.

It almost impossible for outsiders to break into the charmed circle. One who tried was Mr Hiromasa Ezoe, the self-made businessman at the centre of the Recruit scandal. By offering leading politicians cut-price stock in Recruit Cosmos, a property company he controlled, Mr Ezoe was able to buy access to the fringes of power. For his pains, he has now been indicted on several counts of bribery, his business and political career in ruins, while the politicians who took his money have so far got away scot-free.

It is not just the *nouveau riche* like Mr Ezoe who are forced to feed millions of yen to the politicians. So does big business. Mr Shinto, whose arrest delighted my taxi-driver, was the chairman of Nippon Telegraph & Telephone, Japan's largest company. He says he did not accept shares from Recruit for his own benefit but for NTT's — most of the profits were transferred to the company's political slush fund.

This was bad enough. But, from the point of view of the man in the street, what made things much worse was the revelation that the Y800m fund was composed largely of contributions not from the company's profits but from the NTT workforce. "Voluntary" donations were made according to seniority.

Mr Miyagawa is convinced that public anger over Recruit is but "a torrent which could destroy the LDP." As a prime ministerial adviser, he has told Mr Takeshita as much. He may be wrong — anger over Recruit could die as quickly as it was born in a rich and self-satisfied country like Japan. The middle-class quickly retreats from public into private concerns. But many politicians believe that there is a possibility that *Mr Miyagawa is right. If so, it* is not just the government's future which is at stake, but that of the whole LDP party.



UK economic policy

The case for a tax on land

By John Muellbauer

Mr Lawson's Budget has the appearance of being cautious but his economic strategy runs high risks. His Budget sensibly harnesses labour supply incentives by removing a major work disincentive for the retired. It reduces disincentives for the low paid, part compensation for the worsening of the unemployment trap that is resulting from the Government's housing policies and the house price and rent spiral.

However, the increased incentives for personal saving neglect the fact that the decline of personal savings has much to do with the rising trend of personal wealth relative to income. These incentives may well boost equity prices, increase the wealth to income ratio further and so cancel the intended stimulus to savings.

As far as *financial* wealth is concerned, the Treasury's sanguine view can be defended: financial capital is internationally mobile, financial markets are competitive and not subject to large fiscal distortions. Though temporary overshoots can occur, financial market values in the longer run probably do not deviate greatly from economic fundamentals.

The same cannot be said for personal sector *physical* wealth, largely dwellings and land, accounting for around half of net wealth. No assets could be less mobile, and these markets are now the most distorted important markets in the UK. A reduction in the underlying distortions would bring net wealth into a healthier relationship with income. This would help to control consumer spending and bring important gains in overall economic efficiency. This is where the Chancellor has missed a great opportunity for a tax reform alternative to his risky high interest-rate strategy.

In 1981, net wealth was around 3.5 times annual personal disposable income. The ratio is now probably a little over 5, an all-time record. Behind the rise in financial wealth relative to income lie a number of favourable economic developments: global disinflation; a fall in the prices of imported compared with UK-produced goods; the return of economic growth, productivity growth and company profitability matching the "golden age" of the late 1950s and 1960s; and high oil revenues which have made government surpluses possible.

Many of these factors also account for *part* of the spectacular increase in house and land prices relative to income. Between 1981 and the second quarter of 1988, the price of an average building plot divided by per capita personal disposable income in the UK went from 1.6 to 4.1 in England and Wales, from 2.3 to 7.2 in Greater London and from 2.2 to 7.4 in the rest of the south east.

However, there can be no doubt that the liberalisation of credit, given a tight land use planning system and tax advantage to owner-occupation, explain much of the increase in land prices. These tax advantages are well known and have been increased further by the abolition of property taxes (domestic rate) in Scotland this year and England and Wales next year. This will make house price to income ratios some 20 per cent higher on the average than they otherwise would be, according to Peter Spencer, an economist at Shearson Lehman Hutton.

The effect on land prices is even bigger. Furthermore, other subsidies to housing are increasing: under the Business Expansion Scheme, large subsidies to investment in rental accommodation are being made. Payments of housing benefit are set to soar to compensate tenants for higher rents. These subsidies, partly themselves the result of problems caused by high land prices, ultimately largely accrue to the owners of land.

The policy response to the Treasury's late perception of the disturbing trends in the savings ratio and the trade balance has been to raise short-term interest rates. Debt on which interest payments are made exceeds assets on which such interest income is received. The result, the Treasury argues, is to squeeze household spending. However, the side effects of high interest rates, for example, on the cost of living and on small firms are unpleasant. In particular, they bear on indebted young wage and salary earners as against the wealthy old, generating pay pressure.

More fundamentally, they are a short-term response to what, despite the relative complacency of the Budget speech, is a long-run problem. In the liberalised financial markets of 1989 one must have serious doubts about how long they can be made to stick, as Clive Wolman pointed out (FT, January 7 1988).

To give another example, most owner-occupiers who are unhappy about paying current British mortgage rates can do what I did. In the course of a painless transaction taking only a few minutes in my friendly high street bank I effectively switched my mortgage into one charged at much lower German interest rates.

Someone with, say, a £30,000 mortgage who wants to do this for, say, 6 months simply takes on a £30,000 contract to buy sterling against German D-Marks in six months. The quoted price will be the current spot rate minus the short term interest rate difference between the UK and Germany. If the exchange rate remains steady, he or she collects this interest rate difference as a capital gain six months hence. The gain is higher if sterling appreciates but lower if it depreciates. For most owner occupiers, the gain will be below the CGT exemption limit and so tax free while full tax relief on UK mortgage repayments continues.

Given the Government's anti-inflationary stance, the currency risks do not look excessive. As more borrowers became aware of the opportunities, sterling is likely, if anything, to appreciate until the perceived currency risks outweigh the interest rate rewards. The consequences of this for exporters and importers, and so ultimately on the trade balance, are obvious.

Sooner or later, whatever government is in power will have to consider proposals of the following type among the policy options. I propose a tax on residential land values. Specifically, I propose that 1 per cent of the current market value of each plot of residential land above some exemption limit be paid to the Inland Revenue each year. An exemption limit of say £15,000 would ensure that many owner-occupiers escaped the tax altogether while rebates similar to rate rebates would be available to those with low cash incomes. Landlords would be able to *deduct all or part of the* tax from tax due on their receipts. Market values of plots would be established by the existing district valuers and indexed annually to local land price indices.

Revenue from such a tax would be substantially lower than from domestic rates and *so politically more acceptable*. Because it would be paid on undeveloped land zoned for housing, as well as on occupied land, this tax would have a more substantial effect on land prices by encouraging the release of such land, than a housing tax raising higher revenue. It would avoid the old Schedule A problem of complicated allowances for residential improvements. It would be better for first-time buyers than the housing tax I discussed in "Why we need to tax the market value of houses" (FT, May 11) without losing most of the latter's advantages. It helps to reduce regional economic imbalances, assists the development of rental markets, reduces tax distortions and the unemployment trap and helps capture some of the economic benefits stemming from public investments.

The author is a fellow of Nuffield College, Oxford.

LETTERS

The two hats of a German banker

From Mr Alexander Uberoi.

Sir, Your article "The need to open up corporate Germany" (February 13) made several correct observations. I would like to point out a few others.

In the case of public stock companies, it is necessary for the management to be in constant *dialogue with their owners* — the shareholders. This is not so in Germany. The German *Universalbanken* hold only very limited participation in German public stock companies. At the same time, they exercise a substantial amount of influence via the so-called *Depot-Stimmrecht*, where the bank exercises the voting rights of the shares which they hold for their customers. This leads to the peculiar situation of the supervisory boards of German public stock companies having bankers almost exclusively as members.

It would be fine if one could say that these bankers represent the shareholders. However, they do not. The banks they are representing will, in *almost every case*, be heavily involved in granting credit facilities to the company in question.

The banker is therefore a two-headed Janus: on the one hand he is the supposed representative of the shareholders, and on the other he is trying to *secure the extended loans*. Needless to say, in such a situation the management will feel no need to talk to shareholders. They discuss issues with the bankers on their supervisory board, whether they be equity or debts.

This practice leads to mini-standard dividends being paid out, as the bankers on the supervisory board obviously prefer to keep the profit in the company, thereby over-securing their extended loans. This in turn leads to a strong undervaluation of almost all major companies at the stock market, which will make them very attractive for hostile takeovers in Germany from 1989 onwards.

Alexander Uberoi,
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D-6240 Königstein/TS,
West Germany.

Patient care

From Dr Catherine Kroll.

Sir, I whole-heartedly share your reservations about the Health Service white paper ("The doctors disapprove", March 14). Particularly worrying are the proposals to increase capitation-related earnings and replace item-of-service payments with targets which for inner-city practices are likely to prove unattainable. These proposals present doctors with a dilemma. Do we follow the commercial logic of the white paper and risk a deterioration in patient care, or do we continue to put the patient first and take pay cuts.

In one respect you exaggerate doctors' ability to take this degree of responsibility for the services they provide. Only about a quarter of doctors are in large enough practices to become budget holders. The rest will have no option but to send patients wherever the health authority directs. So at least three quarters of the population will be deprived of the choice of consultant which they currently enjoy.

From my perspective, the *white paper is a cost control* exercise, and will do little to improve freedom of choice or improve quality of service to patients.

Catherine Kroll,
100 Lavender Hill, SW11

Directors must keep shareholders informed

From Mr E.W.I. Palamountain.

Sir, Mr Smith (Letters, March 11) is correct in insisting that a rights issue should remain the standard method by which to raise fresh capital.

The procedure is, in fact, a notable British invention. It was adopted elsewhere (although not, in general, by the US), and its innate superiority to other methods is in its effective restriction of the extent to which directors can dilute the interests of shareholders.

Insofar as financial rather than voting interests are in question, however, defenders *of pre-emption rights do have* to recognise that certain other options may sometimes in practice be more economical.

This is because, as your other correspondents have pointed out, rights issues are not cost-free, and a vendor placing, for example, at a miniscule discount might well cost the shareholders less than a rights issue, particularly if the latter is underwritten (as they all to often are).

But the onus must always be on the directors to tell their shareholders that any such alternative is preferable. These considerations are particularly topical because it has been suggested that issues of new shares unrestricted by rights might be an effective way of spreading *share* ownership.

If this idea has grown out of the experience of the privatisation issues, it should be noted that the associated marketing costs would surely make such an issue more expensive than a rights offering.

E.W.I. Palamountain,
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Risky business

From Mr Edward Harkins.

Sir, I agree with Lex (March 14) that we should debunk the myth that the UK venture capital industry is full of brave investors taking high risks in return for high returns. While *Lex is correct in distinguishing* between genuine risk ventures and management buy-outs such as MFI and BPCC, I would draw another distinction, between the institutional and individual investors in the capital venture field.

Business expansion scheme start-up companies are making it clear that many individual investors are willing to equate higher levels of risk with *potentially higher returns.* This really ought to shame the institutional investors. The failure of institutions to back venture schemes in any sustained or substantial way remains a major weakness in our economy.

Edward Harkins,
39 Stonelaw Drive,
Glasgow.

The constitutional future of Europe

From Mr Richard Cottrell MEP.

Sir, Fred Tuckman argues *that* "success is built on public confidence" (Letters, March 15). That is precisely what the European Commission does *not enjoy*, and is the fundamental reason why so *many* people are sceptical about 1992 in particular, and the drift of the EC in general. To argue that the British Government bears no responsibility for maladministration of the Common Agricultural Policy (CAP) is untrue.

Agriculture represents one of the major surrenders of sovereignty to the EC. The *script for all the ghastly follies of the* CAP was written and produced in Brussels by officials who refuse to ditch *it* for fear of hindering the prospects for European union.

It is the Commission which for more than 20 years has ignored public criticism of waste, *mis-management*, fraud and bitter resentment against over-production and environmental damage wrought by subsidy-fuelled intense farming inspired through the CAP.

Within the past few days, Mr Jacques Delors, the Commission President, has displayed the strength of his concern by accusing Mrs Thatcher of raising the fraud issue as a political diversion. If the CAP represents the *skill* of the Commission in "running large projects" then we should be alarmed for the future.

It is correct, as Sir John Hoskyns has implied, that parts of the 1992 legislative programme are defective and wrongly inspired. The Commission has always regarded the Treaty of Rome as an interventionist instrument. Post-1992 that same Commission, elected by *no one*, will *enjoy unrivalled* powers over all our lives and supply its president with as much power as any head of *state or* prime minister in the member countries.

To whom are Jacques Delors and the rest of the Commission accountable? At the Institute of Directors conference, Sir John provoked an important and long-overdue debate on the constitutional future of Europe. *This debate will not* be enriched by MEPs acting as press and publicity officers for the European Commission, who have quite enough appointees of their own to manage that task.

Richard Cottrell,
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Bower Ashton,
Bristol.

FINANCIAL TIMES
Monday March 20 1989

Janet Bush on Wall Street

Technology for the traders

IT IS a not uncommon claim within the computer industry that technology will improve 1,000-fold between now and the year 2000. The breathtaking speed with which technology is advancing presents a formidable opportunity and challenge for companies whose competitive edge increasingly depends on investment in the most up-to-date equipment.

This is no more true than for companies committed to trading in global securities markets, well represented at a two-day conference here last week on Trading Technology, arranged by international management and technology consulting firm Arthur D Little.

Since 1984, the number of MIPs (millions of instructions per second) has doubled every year. Memory capacity has tended to quadruple every two years. Speaking at last week's conference, Mr Edward Boyhan, chief technology officer for *Amtech* (Asset Management Technology Corporation) and formerly of Salomon Brothers, said that it was not unreasonable to expect this pace of change to continue.

Wall Street firms then face the tough decision about what point they should make extraordinarily expensive investments on this steeply rising technology curve.

There appear to be three prime issues for securities firms and for the computer companies addressing their needs: an effort to impose stringent cost controls, a desire to expand globally and the importance of managing risk.

During the great bull market of the 1980s, securities houses bought into the latest technology with an abandon which is no longer possible. Since the October 1987 stock market crash, the emphasis has shifted from rapid expansion at any cost to cautious and strategic planning for new technology with cost-control at the forefront of thinking.

The securities business is increasingly high volume and low margin, placing a premium on productivity. The biggest cost of any trading room is paying dealers' salaries: technology offers the opportunity of increasing the productivity of a trader and cutting the number of traders needed.

Currently, a trader can juggle about seven different pieces of equipment on a trading desk, including his phone, a database, a dealing screen and a quantitative analysis model, for example.

"In the future, a trader will be able to handle around 1,000 instruments like an orchestral conductor," says Mr Boyhan.

Then there are the challenges of an increasingly integrated global trading market. Systems must be able to be linked up across time zones for efficient dealing, clearing and settlement.

At last week's conference, Mr Richard Justice, executive vice president of automation at the National Association of Security Dealers, predicted that an electronic screen-based international stock market will evolve which will be separate from existing markets. This evolution will depend heavily on the development of the appropriate technology.

The third major concern is risk management. Increasingly, *trading systems are* incorporating sophisticated software and so-called expert systems (programmes which go some way towards replicating human decision-making) to help a trader keep abreast of his exposure, arbitrage and hedging opportunities.

British Telecom is one firm committed to developing ever-more sophisticated trading systems to serve a worldwide market. It estimates that in 1988 it won about 40 per cent of all new orders for advanced telephone systems for trading rooms.

It expects to start New York demonstrations of its new trading system – the Rapid Application Development System or RADS – as early as next month. The system, already being demonstrated in London, is designed to address the three major concerns detailed above of trading houses going into the 1990s.

In all this whizz-bang talk, one fundamental consideration overrides any other and that is whether all this sophistication will find acceptance among traders.

Mr Stephen Levkoff, who was instrumental in putting in a new system at Smith Barney where he is a managing director, says: "Traders are not technicians, they have an attention span of 30 seconds and most of them think they know more about everything than God. The main thing is to make these damn systems usable."

China shuts door on rapid reform

Peking may crack down on political debate, Peter Ellingsen reports

THE halcyon days of China's economic and social liberalisation appear to be over. While Peking will still maintain an open door to foreign capital, it now appears the recent flexibility toward Western political ideas and rapid financial reform is to end.

In related moves, the Government has signalled an imminent crackdown on political debate and a partial return to centralised planning. As part of a mounting tide of censorship, academics have been warned against signing petitions calling for the release of political prisoners, while foreigners have been told not to "interfere with China's internal affairs".

The clearest indication of the new hard line will come in a speech which Li Peng, Prime Minister, will deliver before the National Peoples' Congress, China's parliament. In his most important message of the year, Li is expected tomorrow to detail policies to strengthen Communist Party control and reverse the devolution of power begun by his predecessor, Zhao Ziyang.

Now Zhao, the party secretary and Li's rival, is believed to come under indirect attack in the prime ministerial speech for his alleged mishandling of the economy. Li's address is expected to blame last year's record inflation on the rapid growth in construction and production encouraged by Zhao, and on the former premier's alleged failure properly to establish macro-economic controls.

While assuring delegates that the Government will not impose overly-tight restrictions, or revert to the past model of total centralisation of power, Li will make clear that China intends to stick with socialism and take a cautious approach to privatisation, a favoured measure of Zhao's own.

If, as expected, Li's report is endorsed by the 2,976 delegates, it will constitute a blow to Zhao's reputation and provide conservatives with increased clout. Zhao, a protégé of Deng Xiaoping, the paramount leader, has been a key advocate of the rapid reform measures that have marked China's development since 1980.

By increasing rather than lessening control over prices, and reversing the devolvement of power to the regions, Li and Yao Yilin, Vice Premier and his close ally, have in effect turned back the process of reform.

With a majority of the leadership apparently supporting the more cautious approach, it is expected that the National Peoples' Congress, which theoretically is the organ of highest authority in China, will have little choice but to rubber stamp the Premier's policies.

This is also a blow to reform, because recent meetings of the Congress have shown signs of independent debate and democratic decision-making.

During the first session of the Congress last year, there were, for the first time, a significant number of negative ballots when deputies cast their votes to confirm the party's nominees for senior government posts, as well as criticism over social issues such as the low salaries paid to intellectuals.

But by advising the national media against running "negative stories", and warning reporters to not breach the new censorship guidelines that they will have to answer to the party's propaganda department, the Government has tried to prevent any criticism before it happens.

Some independent-minded delegates, particularly those from Hong Kong, may try to raise their voices in opposition, but it is now unlikely their views will get much of an audience.

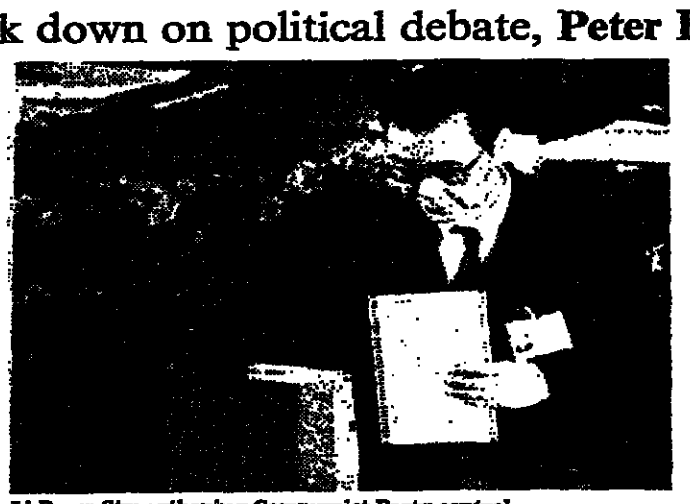
It is believed that a number of the delegates to the Congress, and the Chinese political consultative conference, which is also holding meetings in Peking this week, have signed one of three petitions calling for an amnesty for political prisoners.

But, in what looks to be an attempt to warn others who may be thinking of speaking out, Xinhua, the official news agency, put out a strong commentary at the weekend accusing one of the initiators of the amnesty drive, the Shanghai writer Chen Jun, of "blackmarket and other illegal activities".

Claiming the petition is designed to stimulate foreign media and put pressure on the Chinese Government, the commentary says: "The Chinese people suffered enough from foreign invasions before the liberation (and) since then... The Chinese people have become masters of themselves."

In an unusually strident attack on Western influence, and by implication, reform, it goes on: "Copying foreign political systems and experiences will not save China.

"Modern history shows that the road which combines Marxism and China's practical conditions is the only one that will lead China to victory, and it is also the road the Chinese people have chosen for themselves. Nobody can ever change it."


Li Peng: Strengthening Communist Party control

THE LEX COLUMN

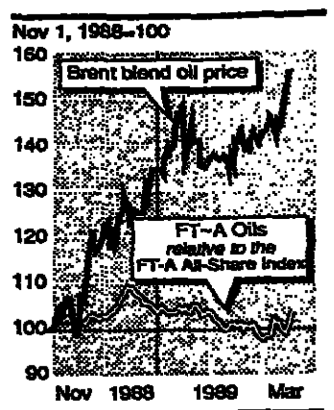
A bad spring for the oil bears

That dodgy time of year when oil prices are meant to fall has been and gone, and the errors of *bearish oil forecasters* now appear in boldest relief. Last week they finally admitted that $18 oil was not the fragile affair they had assumed, with the result that the oil price rose by $1.50, leaving the oil sector 5 per cent higher than a *fortnight ago. If, as seems* likely, the movement was simply a matter of bears squaring books, it may not stick. In the *crude market the rise* was almost certainly technical, and the $1.50 premium of spot over forward prices is a sure enough sign of a good old fashioned short squeeze.

At first sight, the rise in oil shares looks better founded. *Since* last December the fraught relationship between oil prices and oil shares has broken down, with the oil sector *underperforming* a rising stockmarket by 15 per cent, despite a rise of over 50 per cent in the oil price. Even after last week's advance, the sector relative is no stronger than at the start of 1987, when the oil price was lower and everyone expected further falls.

By contrast, the prognosis for the oil price is now fair: the hundreds of millions of barrels of oil that were meant to be overhanging the market seem either not to have existed at all or to have been largely absorbed by the extraordinary 5 per cent growth in demand in the fourth quarter. Meanwhile, Opec is ignoring any small lapses by its members, and the prospect of an imminent Opec/non-Opec meeting is casting a reassuring, although perhaps thin, gleam over the market.

While the big risks in the oil price may have gone, the implications for the sector may not be correspondingly good. Everyone knows the independents move with the confidence of potential bidders, which has little to do with today's oil price. As for the majors, there is good reason for underperformance. Even assuming the oil price stays at $18, earnings cannot be much better than flat, which means *it is not reasonable to expect* the generous dividend increases in prospect from the rest of the market.



Gold Fields

The low turnover in Consoli*dated Gold Fields shares in* recent days had already been signalling that Minorco's second bid had failed. If there had been any chance of Minorco winning, investors would have been selling for cash in the market rather than taking Minorco paper. The sudden spurt in Gold Fields' shares at the end of last week only confirmed the impression that Minorco is going to have to make a third bid if it wants this company.

The more nervous investors should have bailed out already. Since the bidding started six months ago, eurodollar interest rates have risen by 25 per cent, the outlook for the gold price has deteriorated and the price tag being put on *Gold Fields* has risen substantially. Minorco made the mistake of not getting its offer underwritten and believing that UK institutions want the paper of a company whose share price is pretty meaningless. However, it has not lost the initiative and a final offer of between £15 and £16 would be hard to resist. Gold Fields will be hard pressed to demonstrate that the company is worth anymore and there is always an outside risk of an adverse US court ruling.

Japanese trusts

The foreigners' campaign for financial equality in Tokyo has been going relatively well of late, and now the chances are that even the Japanese investment trust preserve may have to tolerate foreign faces. In the context of a UK investment trust sector which has had far more defections than recruits in recent years, it may be difficult to credit the enthusiasm of foreign fund managers who are lobbying hard to enter the Japanese market. But almost *everyone professes* optimism for the future of investment trusts in Japan. The industry may have been small and fail*ing for most of the time since* the first trust was set up in 1951, but the past three years have begun to rewrite history.

Since the end of 1985, the industry's assets have more than doubled, to Y50 trillion at the end of last year; and annual growth of 15 to 20 per cent should carry on for some time to come. Now that the Finance Ministry is considering issuing new licences to operate investment trusts for the first time in years, foreigners want to make sure that they get a chance to prove their comparative advantage.

Already they are gearing up to demonstrate their special talents at pension fund management, following news that the duopoly of life companies and trust banks over corporate pension fund management is to be broken. But the funds involved are relatively small: outstanding assets are barely a third the current size of the investment trusts, and only a fraction of that figure will be opened to competition. Foreign upstarts in the investment trust market may also find it tough to wrest business away from the Japanese securities houses which now dominate it – assuming the ministry eventually allows them to try. But if the market continues to grow at its present pace, it should easily prove large enough for everybody.

Taurus

The City's decision last week *to abandon the original Taurus* settlement system is yet another vote of no confidence in the Stock Exchange, which has spent over five years throwing money at the prototype. There appears to be some doubt whether the Stock Exchange *is* capable of conducting major technological projects efficently, and the market has sensibly decided to build on what it has already. Not only will this be cheaper, it may just mean that something will actually be done about the existing antiquated process without further interminable delay.

Still, the proposals scarcely amount to the "fastest, safest, simplest, cheapest system possible" that was demanded so urgently by the Bank of England last month. With the move to a paperless system only half-hearted, London will *still be at a disadvantage to* every grown-up market in the world. It will also seem backward against second division markets like Paris, which installs a spanking new electronic system at the end of the year. Meanwhile, the calls for *international agreement on* systems that work even faster than the best existing ones are whistling in the wind. London cannot even agree with itself; its chances of agreeing with the rest of the world are remote indeed.

Socialists gain ground in French elections

FRANCE'S ruling socialist party gained ground in yesterday's second round of municipal elections, winning back over two thirds of the major towns it lost to the right in 1983.

Strasbourg and Mulhouse in the east of France, and Quimper in the west, were won by socialist candidates, although ecologist candidates had been expected to take away votes from the left. In Strasbourg, Mrs Catherine Trautmann becomes the first woman mayor of a major French city.

Mr Michel Delebarre, the transport minister, won an unexpected success at Dunkirk, defeating a right wing mayor with 23 years in office.

Estimates by the Ipsos polling institute gave the socialists victory in 78 towns of over 30,000 inhabitants, 12 more than in 1983. The communist *party won 48 towns, 5 less than* six years ago.

The RPR, however, swept the board in Lyon, France's *second most important city*, and its leader, Mr Jacques Chirac, was estimated to have repeated his 1983 clean sweep *of Paris's 20 districts.*

Lockerbie data not sent until after crash

By Michael Cassell, *Political Correspondent, in London*

MR PAUL CHANNON, the UK Transport Secretary, will today face renewed pressure to make a Commons statement on his department's handling of bomb warnings which preceded the Lockerbie air disaster.

The problems facing Mr Channon and the Government intensified last night when the Department of Transport admitted that the December 19 letter describing the type of bomb that destroyed the Pan Am airliner was not posted until the new year – after the December 21 disaster.

A department official said the letter was not sent out to airlines immediately because accompanying colour photographs of a suspect radio cassette had to be prepared. Previously it had been thought that the letter had been held up in the Christmas post.

However, Mr Channon looks unlikely to bow to demands for an early, further explanation of *events, in spite of repeated* claims by Mr John Prescott, Labour transport spokesman, of a government cover-up, and *renewed calls for a full public* inquiry into the affair.

Last night's disclosure followed weekend reports raising *doubts of the Transport* Department's role in evaluating and circulating warnings of a possible terrorist bombing.

It was also announced that Mr Samuel Skinner, US Secretary for Transportation, is sending a team to London and Frankfurt to help investigators, a decision said to reflect concern at the inquiry's progress, though Mr Channon said the move was very welcome.

Yesterday Mr Channon was criticised after his assertion last week that the December 19 letter, previously said by his department to have been issued two days before the crash, was "of no importance whatsoever." He said all relevant information was in a message telexed on November 22.

Earlier yesterday, the Transport Department and Downing Street had made clear their belief that any further disclosure of events surrounding the treatment of the security warnings distributed to airlines and *airports could jeopardise* criminal investigations of the bombing.

There was mounting govern*ment anger at the repeated* attacks on Mr Channon and his department. Mr Channon rejected Labour claims that he *had misled Parliament.*

UK, Bonn in rift over Tornado credit

By David White, *Defence Correspondent, in London*

THE BRITISH Prime Minister's office confirmed yesterday that Mrs Margaret Thatcher complained to Chancellor Helmut Kohl of West Germany last October about Bonn's refusal to provide state-backed credit for the sale of jointly-produced Tornado combat aircraft to Jordan.

Mrs Thatcher said in a letter to Mr Kohl that she was disappointed with the decision and that in future she would find it difficult to accept credit arrangements in which Britain took more than its share.

However, the West German share of credit finance for the £500m ($850m) sale is now being provided by German banks under an arrangement announced in January with a *consortium* led by the Bavarian State Bank.

An earlier plan by the Bonn Finance Ministry to involve the state-owned Kreditanstalt *für Wiederaufbau* was *dropped* after an outcry in West Germany over whether the country should participate in arms *supplies to war zones.*

Georgians stage show of resilience

Continued from Page 1

women and broke it up.

There was screaming and several people fell, although *no-one* was hurt. Part of the crowd was quickly able to re-form by the Opera door, chanting slogans. Several cor*dons of police* blocked their way into the building.

At this point, *there* was apparent uproar inside the Opera House. Sitting in the ornate boxes and stalls seats, the Rustaveli delegates had been able to hear the violence outside and several rushed to windows to see the chaos in the street.

A large number of delegates were apparently up on their feet in the Opera stalls, insisting that they could not continue with the conference until the militia had withdrawn and had allowed the street demonstration to go on.

In the face of protests from all *sides*, Mr Shadiri had no choice but to call his men away. He was later obliged to mount the conference platform and apologise for the behaviour of his men. He was jeered by Georgia's glitterati.

However, the collaboration between official and unoffical Georgians had only just begun.

The Rustaveli society's main task was to elect a new president. One of the three candidates, Mr Aki Bakhradze, is the only member of the Georgian Communist Party who is supported by the unofficial groups. Part of the purpose of their demonstration was to *show support for their man in* the Congress.

Mr Bakhradze's message is unmistakeable. He calls *for* substantial sovereignty for all Republics of the Soviet union, a *national army for Georgia*, a Georgian National Bank, and an independent police force.

Apart from standing for the presidency of the Rustaveli Society, he is also a candidate for a National Territorial seat in Georgia, in next week's elections to the Congress of People's Deputies.

Dissidents say that his is the only election programme in the Georgian Republic that has never been published

However, the enigmatic Mr Bakhradze is also a loyal party man, who commands support among middle-ranking members of the Georgian party. His *frank criticism of the way the* Communist Party leadership runs Georgia appeals to them.

To the astonishment of *many both inside and outside* the conference, Mr Bakhradze was elected president of the Society gainst two other people, described by several *dissidents* as "the Kremlin men". The largest organisation in Georgia outside the Party, *which was originally set up to* support moderate nationalist goals, now has a fiercely separatist leader.

When news of his election came through to the demonstrators outside, they were jubilant.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	-	-	-	Dubrovnik	S	16	61	Malta	F	18	64	Rhodes	S	18	64
Algiers	C	17	63	Edinburgh	R	11	52	Manchester	R	12	54	Rio de J'o	-	-	-
Amsterdam	C	08	46	Faro	S	17	63	Manila	F	34	93	Rome	S	20	68
Athens	F	22	72	Florence	F	19	66	Melbourne	C	18	66	Salzburg	C	05	41
Bahrain	F	23	73	Frankfurt	F	10	50	Mexico City	F	28	82	San Francisco	C	13	55
Bangkok	F	34	93	Funchal	C	15	59	Miami	S	18	64	Seoul	F	11	52
Barcelona	F	13	55	Geneva	F	06	43	Milan	C	10	50	Singapore	R	32	90
Beirut	F	18	65	Gibraltar	S	14	57	Montreal	F	-4	25	Stockholm	C	05	41
Belfast	R	10	50	Glasgow	R	10	50	Moscow	F	10	50	Strasbourg	S	10	50
Belgrade	C	14	57	Guernsey	C	10	50	Munich	C	05	41	Sydney	R	23	73
Berlin	C	10	50	Helsinki	S	01	34	Nairobi	F	26	79	Taipei	C	20	68
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Yeltsin supporters march

Continued from Page 1

tide of popular support for Mr Yeltsin, possibly enhanced by the obvious hostility of the Communist Party leadership. He is widely expected to win the race for election in the national-territorial constituency *which covers the city of* Moscow. His only rival is Mr Yevgeny Brakov, head of the city's huge Zil vehicle factory. Voting is on March 26.

The rally began in Gorky Park where some 3,000 people turned out for a pro-Yeltsin meeting only to find it banned by the city council, Mossoviet, at the last minute.

Instead, the crowd marched around the city centre and down the main shopping street, Kalinin Prospekt, urging "come and join us" to Sunday strollers, many of *whom did so as the march* gathered supporters.

Buses of military police appeared in the path of the demonstrators, but *made no* attempt to stop the unsanctioned protest. When they reached the city council, they chanted "Hands off Yeltsin," and "Down with Ligachev."

SECTION III

FINANCIAL TIMES SURVEY

The Jugnauth Government is facing the problems of success: pollution, a labour shortage and a leap in inflation. Its ambitious plans must overcome the island's lack of skills and sustain growth. And there is talk of new political alignments, writes **Michael Holman**

MAURITIUS

CONTENTS

☐ *Picture shows Port Louis, the island's capital*

The lion that stops at four

MAURITIUS IS discovering that the task of managing success and sustaining economic growth is as demanding as the implementation of a recovery programme which has seen real growth in GDP average over 6 per cent during the past six years.

A labour shortage, a leap in inflation from under 2 per cent a year ago to around 15 per cent, a slow rate of diversification of the textile-dominated industrial sector, and serious environmental pollution are a challenging combination.

Some of the problems are a consequence of success.

The boom of recent years has created near full employment. But it has left the agriculture sector, where sugar production remains the mainstay of the economy, short of workers. The labour shortage is exacerbated by another achievement – the fall in population increase to under 1 per cent a year, or just over replacement level.

Pollution is largely attributable to the difficulty the infrastructure has in keeping up with a tourist boom and the rapid growth in textiles, outpacing the island's capacity to cope with waste and dye effluent.

The answer, says the Government of Sir Anerood Jugnauth, is a mix of diversification, mechanisation, an environmental programme and implementing new initiatives, such as offshore banking, a stock exchange and encouraging suppliers to use the island as a gigantic duty-free warehouse for their markets in Africa and the Middle East.

But making the transition to an Indian Ocean Singapore or Taiwan raises fundamental questions, says Mr Vishnu Lutchmeenaraidoo, Minister of Finance and one of the architects of the Mauritian success.

"Are we prepared to strike a balance between the needs for growth and the quality of life? he asks. But there are other questions.

"Mauritius has many educated people but not nearly enough skilled people," observes one businessman. Limited expertise, whether the sort needed for a stock exchange or a move into high technology industries, is in short supply. Government training schemes have lagged behind the ideas for the future.

The oft-heard references to Singapore, at the heart of booming Asia, may reflect unrealistic ambitions for an island which has ailing Africa in its backyard.

A civil service which starts work at nine, takes an hour for lunch, and but for a few senior officials disappears promptly at four, falls short of providing its share of the thrust needed to put Mauritius in the Newly Industrialised Country category.

If Singapore and Taiwan are the Asian tigers, Mauritius is still a pussy cat. But by comparison with Africa (Mauritius is a member of the Organisation of African Unity) the Indian Ocean island has grown into a veritable lion.

Ten years ago Mauritius was in dire straits. The economy was hit by low sugar prices on the world market, high inflation, rising unemployment, *and was holding the Mauritian* Rupee at an unrealistically high level.

In 1982 the Mouvement Militant Mauricien, at the time led by Mr Anerood Jugnauth (later knighted), took the IMF medicine. It was administered by Mr Paul Berenger, then Finance Minister.

The two men were soon to part company. Sir Anerood left the MMM, but retained the premiership and formed his own party, the Mouvement Socialiste Mauricien (MSM). Mr Berenger today is the secretary general of the MMM, led by Dr Preb Nababsing, and claims – with some justice – to deserve part of the credit for what followed.

Under successive IMF programmes, supported by the World Bank, the Government devalued the rupee, liberalised trade, lifted price controls, cut subsidies, offered substantial foreign investment incentives linked to the creation of an Export Processing Zone, and maintained the rupee and labour costs at levels which kept Mauritius competitive on the world market. The policies brought dramatic results.

After a slow initial start, the prescription took effect. In the four years 1984-87 real GDP growth exceeded 25 per cent, almost doubling per capita income in current terms. Mauritius is now in the category of middle-income country, with GDP per capita at $1,600, and the island's 1.1m inhabitants enjoying the benefits of what they call a "welfare state" – a description which sounds incongruous given their enthusiastic espousal of a free enterprise, market-dominated economy.

Education (including university) is free, as are the health services. Citizens have an unemployment and social security safety net and old age pensions. Nearly every household has a television; most have a video machine.

Nearly every yardstick indicates progress. The debt service ratio, which peaked at 27 per cent in 1984, has fallen to around 10 per cent (last year the Government made earlier than scheduled repayments of $35m of Eurodollar loans negotiated in the early 1980s). Although the budget deficit has risen slightly in the last financial year, it is still being held to around 2.5 per cent of GDP.

Given this record, the Government might be forgiven if it was inclined to sit on its laurels.

But the warning of the challenges that lie ahead comes from Mr Lutchmeenaraidoo himself.

Reviewing the country's achievements in the course of the budget address last June he went on: "Our task now is more difficult" – maintaining full employment, sustaining growth but keeping inflation under control, implementing further improvements in living standards.

The strategy adopted – diversification and mechanisation – is endorsed by most observers. The labour shortage is forcing the textile sector to introduce more sophisticated equipment, which also allows the industry to respond more quickly to changing market demands. Diversification within the Export Processing Zone, where attractive foreign investment terms turned Mauritius into one of the world's largest exporters of garments, has been given priority. New growth areas include leather, jewellery and a modestly successful attempt to attract high technology industries.

A host of incentives is stimulating mechanisation in agriculture. Inflation is being tackled with a combination of fiscal and monetary measures.

On the environmental front – one of the most serious challenges faced by a country where tourism is one of the three main foreign exchange earners and sources of employment – the Government is taking somewhat belated action. A $93m five-year programme, backed by the World Bank and other donors, was drawn up in January.

The Government is also embarking on an overdue reappraisal of its tourism policy. The target of 400,000 visitors a year by the end of the century is now seen as arbitrary. Issues such as infrastructural capacity, and the impact of mass tourism on the island and the islanders' way of life, are being given more attention.

Nevertheless, it is difficult to avoid the impression that an administration which won a further five-year term in August 1987 is sometimes distracted from the task of implementing its economic blueprint and consolidating its achievements.

This may largely be due to the fact that Sir Anerood last year lost a junior partner in his MSM-led coalition. Providing he retains the support of Sir Satcam Boolell, leader of the Labour Party, the Prime Minister's majority in the House of Assembly is safe. But a further factor is the resurfacing of a drug scandal which began in 1985 and in which six senior members of Sir Anerood's party were involved.

The result is constant talk of new alignments, coalitions and shifting party loyalties.

It is a mark of Mauritius's vibrant multi-party democracy – but it may also lead to weak government management.

Perhaps the most noticeable area of government uncertainty involves the environment, subject of a disquieting World Bank report. Mr Lutchmeenaraidoo and Mr Michael Glover, the recently appointed Minister of Tourism, stress the urgency of remedial measures advocated in the report. Yet it seems clear that some senior ministers and officials remain complacent.

The electioneering nevertheless reinforces rather than undermines one of the island's strengths: its political stability. Party differences appear to have more to do with personalities or ethnic backgrounds than with fundamental policy divergences. The MMM, for example, would reduce trade ties with South Africa, but does not intend to change the basic economic strategy.

If in the months to come the electioneering becomes more intense, the well-established axiom of island life will doubtless hold good: when under stress Mauritians look to coalitions and consensus.

It will stand Mauritius in good stead as the country, just after marking its 21st anniversary of independence, seeks to consolidate success and explore new areas of growth.

KEY FACTS

Area	720 sq miles
Population	1.03m
Population growth rate	1 per cent p.a.
GDP (factor cost) (1988)	MRs 21.5bn ($1.6bn)
GDP per head	$1,500
Exchange rate	$1 = Mauritian Rupees 14.5
Main exports	sugar MRs 4.5bn (1988); textiles MRs 6.7bn; tourism MRs 2.5bn

Michael Holman, Africa Editor, talks to Sir Anerood Jugnauth, the Prime Minister

'How we can sustain growth and a vibrant democracy'

IS THE Mauritian "economic miracle" endangered by inflation approaching 15 per cent, labour shortages in some sectors and the slow rate of diversification in the Export Processing Zone, still dominated by textiles?

The Prime Minister: There is no danger, because we are addressing these issues. Inflation is due to excess liquidity, wage increases and a certain amount of overheating of a very dynamic economy. GDP real growth has averaged 7 per cent between 1983 and 1988. The labour shortage is encouraging greater mechanisation and computerisation in the textile sector, which we want to consolidate, and we are running a more intensive training programme to cater for diversification into a range of activities from leatherwork to jewellery and technology.

What are your targets for the next five years?

Sustain economic growth and maintain our vibrant democracy. The creation of offshore banking and a stock exchange are priorities. And we will emphasise new technology, investment and training.

Why is it taking so long to establish a stock exchange and to introduce offshore banking?

They are not easy to set up, it involves very technical matters. And offshore banking has dangers – we want to scrutinise the banks, and get the right institutions.

The new development plan sets admirable objectives, but it is not always clear how you achieve them.

We set targets but we need flexibility. Past experience has shown that it is very difficult to go along in a prescribed way. We may need to change priorities, so we like to keep flexibility.

Sir Anerood Jugnauth

How serious a threat is pollution?

We are deeply concerned, but the situation is not critical. It is under control. There has been some degradation, I acknowledge that, but we have taken some steps – stopped the removal of coral, for example, and new hotels must have (effluent) treatment plants. With support from the World Bank and 30 international organisations we have prepared a $90m conservation package. I am fully aware that the first and foremost resource is our island and the environment, and our first priority is to preserve it.

"We are concerned about pollution, but the situation is under control. Our first priority is to preserve the environment"

What are the prospects for improving the textile and sugar quotas secured by Mauritius?

We are facing greater competition in our two major markets – the European Community and the United States. On textiles, we must adopt an aggressive marketing policy, selling more sophisticated goods – and a wider range – in more countries. The Sugar Protocol which gives us a European quota of more than 500,000 tons is not in jeopardy, but there has not been a substantial increases in prices offered by the European Community for years.

Do you envisage a decline in tourist and trade relations with South Africa?

Let me set things straight. Our economic success has nothing to do with South Africa in terms of technology transfer or investment, which is negligible in most sectors. We abhor apartheid. But we cannot sever our trade links without jeopardising our economy. We are doing our best, however, to reduce our dependency, be it in terms of imports or the number of tourists.

Corruption appears to be on the increase in Mauritius.

This country is not pure – none is. We are trying to eliminate it, but it's not easy – sometimes temptation is so strong. But I would not say there is more corruption, that's an impression created by the opposition for political reasons.

Do you feel uncomfortable having your face on the new Mauritian gold coin, on the 500 Rupees note, having a marine esplanade named after you?

No. Otherwise I would not have allowed it.

Isn't there a danger of a personality cult? Should not such things be above party politics and party personalities?

No, we don't think so. This takes place everywhere. I don't see why I should be ashamed.

POLITICS

Shifting alliances

APPEARANCES CAN be deceptive in Mauritius's vigorous multi-party democracy.

At the August 1987 general election the alliance led by Sir Anerood Jugnauth's Mouvement Socialiste Mauricien (MSM) won what seemed a convincing victory, securing 39 of the 60 legislative assembly seats on the main island. (Rodrigues, a small island 350 miles to the east returns two members).

But the outcome was far closer than the first-past-the-post system would suggest.

The opposition coalition led by Dr Prem Nababsing, the Mouvement Militant Mauricien (MMM), which won 21 seats, secured 48.1 per cent of the votes cast, only a few thousand less than the 49.8 per cent won by the MSM. Looking back, government ministers acknowledge that their main campaign asset – the island's remarkable economic growth – was undermined by a long-running drug scandal in which several members of the alliance were implicated.

In the meantime, a key member of the alliance has parted company with the Prime Minister. Last August, Sir Gaetan Duval, leader of the Parti Mauricien Social-Democrat (PMSD), which holds five seats, left the Government after a dispute over labour policies. This has left Sir Anerood's Government dependent on the support of Sir Satcam Boolell's Labour Party (11 seats).

A further element in the complex picture is Mr Harish Boodhoo, a veteran politician who at one stage was a senior member of the MSM. Last July he revived the party he led until its dissolution in 1983, the Partie Socialiste Mauricien (PSM).

Throw in the fact that the economic boom has eased off and inflation is running at 15 per cent, and the revival of past scandals have by the recent arrest in London of the former High Commissioner of Mauritius, allegedly implicated in drug offences, and Sir Jugnauth's minority government looks to be in some difficulty.

That at least is the view of Dr Prem Nababsing and Mr Paul Berenger, secretary general of the MMM.

Prem Nababsing: "the Prime Minister is on a tightrope"

"The Prime Minister is walking on a tightrope," says Dr Nababsing. "If the Labour Party thinks the alliance won't win the next election, it will want to get out. It's keeping its options wide open."

Past experience, however, show that almost any combination of parties is possible. Would Dr Nababsing form a coalition with Sir Anerood? "Working with the Prime Minister is not completely ruled out, but as days go by it gets less probable," says the MMM leader. "Sir Anerood has said he won't work with Paul Berenger, and we will not accept that."

Mr Berenger himself has mellowed since his student leader days in Paris in May 1968. When the Jugnauth-led alliance of the Parti Socialiste Mauricien and the MMM swept to power in 1982, Mr Berenger became Finance Minister. He immediately set about negotiating an International Monetary Fund agreement – a move which jeopardised his trade union base.

With some justification, he argues that he laid the foundations for the Mauritian economic recovery. Mr Berenger is an engaging and articulate man who nevertheless is regarded by his peers as a somewhat difficult colleague. He soon parted with Mr Jugnauth (later knighted) and the latter formed the MSM and kept the premiership.

Mr Berenger, whose popularity among working-class Mauritians is matched by the antagonism he arouses in some quarters of the business community, also raises the possibility of a broad-based front – "even winning over some members of the MSM."

"The Government is very fragile," asserts Mr Berenger: "The economic boom has peaked, inflation is approaching 15 per cent, job creation now is running at 4,000 a year against 12,000 school-leavers each year, corruption is terrible and the environment is a fundamental problem."

"For five years the Government has done nothing in this field. It's finally woken up to the environment problem but shows no political will or co-ordination."

Yet on economic issues, the MMM does not seem to be fundamentally at odds with the Government.

Dr Nababsing, who stresses that an MMM government would continue to encourage foreign investment, criticises the slow pace of diversification in the Export Processing Zone, says the Government has lagged behind in its training programmes, and maintains that the fishing sector has been neglected.

On foreign policy, the differences appear modest. South African tourism will not be stopped, although Dr Nababsing says trade relations will change: "We would end the preferential tariff agreement with Pretoria, and prepare a list of items we would stop importing from South Africa almost overnight – wine and fruit for example."

Everyone on the Mauritian political scene seems to be keeping his options open. One factor remains constant. Around 52 per cent of the island's 1m people are Hindu, 17 per cent Moslem.

It is no accident that all three main party leaders – Sir Anerood, Dr Nababsing and Sir Satcam – are Hindus. The views of this community remain the key factor in Mauritian politics.

Michael Holman

SOUTH AFRICA

Links denied

THE ALLEGATIONS that Mauritius is Pretoria's sanctions-busting partner, and that investment from South Africa is a major factor in the island's economic boom, surface frequently.

The evidence, however, shows otherwise, as government officials point out with increasing asperity.

The most common charge is that South African-made textiles or garments are brought into Mauritius and re-labelled. This practice – which would be illegal under the island's Export Processing Zone legislation – would not be profitable to the participants, say officials.

"Mauritius is itself a producer of garments and is much more competitive than South Africa. Thus there would be no economic sense when one also takes into account extra freight costs," says one official.

The Government also points out that Mauritius is a small, open society with a vigorous trade union movement which would be the first to blow the whistle if South African exports were being "laundered" in Mauritius.

It acknowledges that a handful of companies – three in the EPZ – import goods from South Africa for re-export. These items are cane loaders and spare parts, polished diamonds and motor car spares. None is on the list of goods which have been subject to internationally agreed embargoes, and the value was anyway negligible – MRs 6,910,650 – in the year ending April 1988.

A second common charge is that South African investment has boosted the development of the Export Processing Zone, which in turn has been the engine of Mauritius's remarkable growth.

A Government breakdown of investment in the EPZ – which is not challenged by opposition parties – shows that local manufacturers accounted for 60 per cent, Hong Kong sources provided 25 per cent, 5 per cent originates from France, while South African investment represents 0.7 per cent. Total investment from South Africa – mainly in the hotel sector – comes to 1.2 per cent of overall foreign involvement, say Government officials.

The third issue involves trade and tourism. Domestic exports and re-exports to South Africa have fallen from 0.76 per cent of total exports in 1982 to under 0.5 per cent, while imports have dropped from 9.6 per cent of the total in 1981 to around 8 per cent last year.

It is on this issue that opposition leaders concentrate their fire, arguing that the preferential trade status enjoyed by Pretoria should be abolished. Government officials do not exclude this at some stage, but argue that an overnight change would raise the cost of living significantly, given that some South African imports are consumer staples.

Pretoria's preferential trade status is under attack

Tourist links are the final area of contention. Once again, government officials point to a decline in the South African share of the market – though they stress they are not going to put obstacles in the way of South African visitors. The percentage of tourists has fallen from 22.6 per cent in 1984 to an estimated 15 per cent last year. Numbers, however, have risen, from 25,000 in 1981 to an estimated 38,000. Total visitors from all countries rose from 122,000 to around 270,000 over the same period.

Sir Anerood Jugnauth, the Prime Minister, has given vent to his irritation over what he called "a systematic campaign of disinformation about Mauritius and her links with South Africa." Speaking at the UN last October, he blamed "jealous rivals unable to emulate the Mauritian miracle." He went to "set the record straight," as he put it but it remains to be seen whether he has managed to dispel the persistent allegations.

Michael Holman

The island needs to make the transition to a more skills-intensive economy, writes **Tony Hawkins**

The only way that the economic miracle can avoid running out of steam

"WE ARE the victims of our own success," Mauritian business leaders like to say when explaining the need for a change in policy direction. After five years of rapid growth, the Mauritian economic miracle has run up against labour and infrastructural constraints that have forced a reappraisal of development strategy.

Hitherto, job-generation and export growth had top priority, but it is now time to make the difficult, challenging switch to a higher technology, more capital-intensive export platform.

By any yardstick, economic performance over the past five years has been impressive, though whether the island has the capacity today to make the transition to a more skills-intensive economy is problematic.

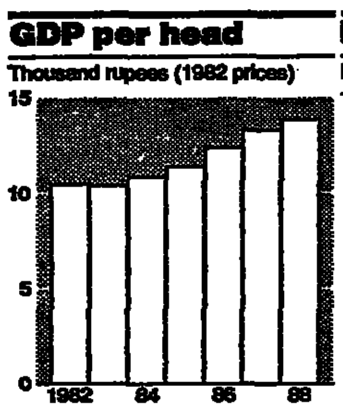
Since the reform package of the early 1980s, real Gross Domestic Product has grown at 7 per cent a year which, with population growth of only 1 per cent, means real living standards have risen by a third since 1983. An estimated 90,000 jobs have been created, reducing the unemployment rate to less than 5 per cent from 23 per cent 10 years ago. Indeed, what little unemployment there is fits into the fictional category, and labour scarcity is not only one of the major constraints on growth but also a key factor influencing the recent shift in policy.

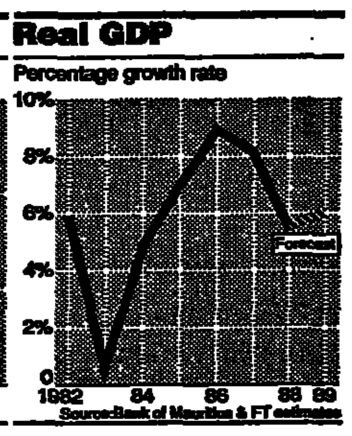
The budget deficit was cut from 14 per cent of GDP in 1982 to 1 per cent last year; inflation has fallen from a peak of 42 per cent to average 5 per cent since 1983, import controls have been abolished, the tax rate halved and price controls dropped.

With that track record, the Government might be forgiven for lapsing into complacency but such is the fragility both of Mauritian political alliances and the export platform model of economic growth exploited so successfully since 1983, that no such respite is possible.

For many Third World critics of the World Bank and IMF, the Mauritius success story is a constant reminder that much-derided structural adjustment strategies will work when implemented efficiently. It implies, to the intense irritation of many African governments, in particular, that the blame for their economic failures rests with them rather than with the alleged inherent shortcomings of the reform packages themselves. More galling still is the Mauritian record of social progress that contrasts so starkly with social failure in most of Africa.

But on the home front too, Mr Vishnu Lutchmeenaraidoo, Finance Minister, complains – with some justification – that when he launches imaginative new projects, such as offshore banking and the stock market, the political opposition is quick to accentuate the negative, claiming that offshore banks will be used to launder drug money while inside traders will exploit the stock exchange.





Source: Bank of Mauritius & FT estimates

Prior exponents of export platform development – notably the Asian Tigers – have illustrated the necessity of flexible and timely adjustment to rapidly-changing world market conditions. Mauritius, too, with its very open export-oriented economy has to keep moving, switching its strategy to exploit market opportunities as they arise. The immediate challenge is that of following the Japanese, Singapore and South Korea in moving upmarket into a more skills-intensive and service-oriented economy – a transition dictated by changing market conditions at home and abroad.

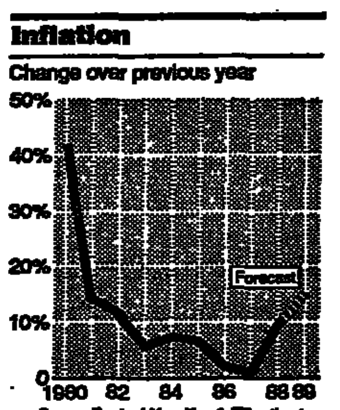
Domestically, Mauritius has reached the end of the labour-intensive development road with only 10,000 to 12,000 job-seekers coming forward each year, while there are also physical limitations in terms of infrastructure and the environment. Heavy dependence on relatively low value-added textiles – the sector is responsible for almost 50 per cent of exports – has engendered a sense of vulnerability to adverse world market developments, such as US and Canadian quotas on textile and clothing imports from Mauritius, especially as exports are concentrated in two main markets (France which takes 37 per cent and the US 25 per cent).

The recent shake-out in the textile sector and the closure of a number of weaker producers has underscored the need for industrial restructuring. The Government believes that this should take place without any official intervention, arguing that retrenched workers have quickly been re-engaged by expanding firms.

Even so, it is clear that the Export Processing Zone is losing momentum with growth forecast to slow to 15 per cent this year and 12 per cent in 1990 from an average of 25 per cent over the past three years. International competition has increased, the knitwear sector has experienced three years of sluggish demand while changed buyer behaviour in the clothing market dictates shorter production runs, faster response times and, above all, improved design and quality.

Mauritius will build market share under such conditions only by deepening its skills base, investing heavily in state-of-the-art equipment and consolidating its factories into larger, vertically-integrated units. Such a process is under way, but it has been left very late, especially on the training side.

Alongside this shift in industrial strategy is the thrust towards service-sector development, reflected in the launch of offshore banking, the establishment of the stock market, the plans to establish Port Louis as a free port and to develop the island as an entrepot centre.



Source: Bank of Mauritius & FT estimates

A third string to the strategy bow is that of both industrial and agricultural diversification. On the industrial side, leather goods, footwear, jewellery, furniture, printing and the film industry are seen as areas where the island can develop comparative advantage. The local assembly of electronic appliances, such as TVs and videos, allied with local component manufacture, is part of a longer-run strategy to develop competitiveness in this field. Computer software and informatics are high on the list too with two ventures due to start soon.

With sugar output on a plateau of 650,000 to 700,000 tonnes a year – little changed from the average of 665,000 tonnes during the 1985-88 period – further agricultural diversification is essential and to that end a battery of new incentives was provided in the 1988 budget. The tight labour market points to increased mechanisation and consolidation of plots into larger units. In the 1988-90 development plan, agriculture's share of GDP is forecast to decline from 15 to 12 per cent, leaving manufacturing to maintain and even intensify its role as the engine of growth.

Four main constraints are evident – the shortage of labour (and specifically skilled labour); adverse world market conditions, especially for textiles and possibly also for sugar; infrastructure and physical limitations such as the constraints imposed on tourism by the lack of more beaches and on industrial development by the shortage of factory accommodation; and the need to ensure that economic growth does not further endanger the environment.

Fortunately, the financial environment is favourable. The balance of payments is forecast to remain in modest surplus, rapid import growth notwithstanding; foreign exchange reserves cover 17 weeks of imports, while the debt service ratio is down to less than 10 per cent of exports (from 29 per cent in 1985) and the ratio of foreign debt to GDP has fallen from 55 per cent four years ago to 30 per cent. Indeed, last year some $35m of Euromarket borrowings were repaid prematurely to reduce foreign debt and improve the island's international credit rating.

Fiscal policy is a remarkable advertisement for supply-side economics. Although tax rates were halved in 1984, the ratio of tax revenue to GDP has actually risen to 23 from 20 per cent in the bad old days of 70 per cent corporate and personal taxation.

Even with the burden imposed by the Chesworth pay awards and the 50 per cent increase in civil service earnings, the wage bill, at 9 per cent of GDP, is lower than in the early 1980s, and the forecast increase in the budget deficit to 2.5 per cent in 1989 from 1 per cent last year is not a serious problem given the Government's ability to finance it from non-bank borrowing via its Treasury Bonds that yield 15 per cent tax-free.

High domestic savings ratios – averaging 27 per cent in recent years – have been a crucial ingredient of economic success. Since 1985, private sector investment has averaged 17 per cent of GDP while the public sector invested an additional 9 per cent.

Foreign investment plays a relatively minor role – few major multinationals operate on the island, though Dunlop is contemplating a footwear project – with net inflows averaging a mere $13m a year in the past five years. Industrialists believe it will increase when the "one-stop investment shop" is established, simplifying the present process of 36 different steps involving 23 government agencies.

The central threat to successful export platform development lies in international competitiveness – the relationship linking inflation, exchange rates, productivity and quality. When export platforms lose their competitive edge, growth stops dead in its tracks. Official inflation estimates, which almost certainly understate the real rate of price rises, point to 15 per cent inflation by mid-1989, slowing in the latter half of the year.

While this may be offset by exchange rate depreciation – the real effective rate for the rupee has depreciated some 4 per cent a year since 1985 – there are also adverse knock-on effects in the form of higher import prices.

Productivity will improve only if technical training, neglected until now, can achieve quick results on the factory floor and if the skills base can cope with higher technology capital equipment. It is vital, too, to devote more resources to quality, especially in textiles.

Provided the difficult transition can be made, growth of 4 to 5 per cent a year is feasible during the 1990s, during which the island will progress smoothly towards the goal of the much-vaunted newly industrialising country (NIC) status.

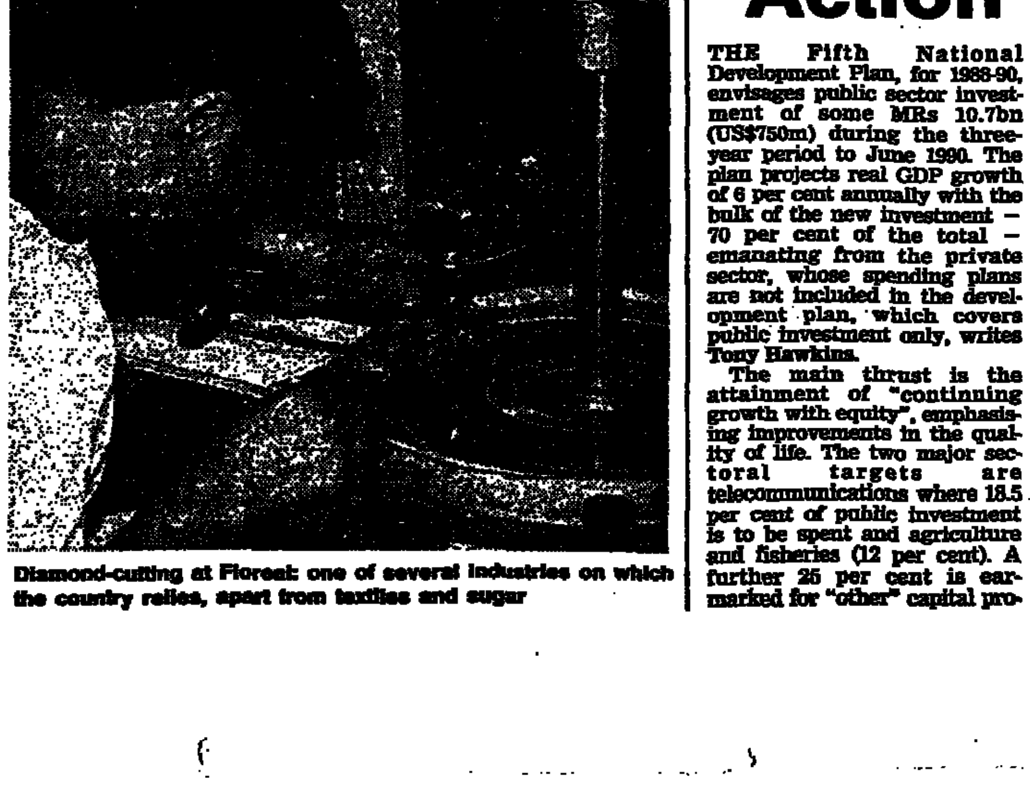
"If we don't make the transition, develop skills, modernise our factories and diversify our economy," warns Mr Lutchmeenaraidoo, the architect of the present strategy, "the Mauritian model of economic development will run out of steam."

BALANCE OF PAYMENTS
Figures in billions of rupees

	1987	1988	1989*
Exports	12.0	14.0	15.3
Imports	13.0	16.3	17.3
Visible trade deficit	-1.0	-2.3	-2.0
Tourism	1.8	2.5	2.9
Other invisibles (net)	-0.6	-0.8	-1.2
Transfers	0.8	0.7	0.8
Current account (net)	1.0	0.1	0.5
Capital (net)	1.8	1.2	-
Overall balance	2.8	1.3	0.5

*Forecast

Sources: Ministry of Planning, Bank of Mauritius and National Development Plan



Diamond-cutting at Floreal: one of several industries on which the country relies, apart from textiles and sugar

NATIONAL DEVELOPMENT PLAN

Action may fall short of targets

THE Fifth National Development Plan, for 1988-90, envisages public sector investment of some MRs 10.7bn (US$750m) during the three-year period to June 1990. The plan projects real GDP growth of 6 per cent annually with the bulk of the new investment – 70 per cent of the total – emanating from the private sector, whose spending plans are not included in the development plan, which covers public investment only, writes Tony Hawkins.

The main thrust is the attainment of "continuing growth with equity", emphasising improvements in the quality of life. The two major sectoral targets are telecommunications where 18.5 per cent of public investment is to be spent and agriculture and fisheries (12 per cent). A further 25 per cent is earmarked for "other" capital projects, ranging from the re-equipment and renewal of government vehicles to development of the Mauritius Broadcasting Corporation.

Infrastructural investment (excluding telecommunications) will absorb 30 per cent of the total, while social projects will receive only 6 per cent. It is difficult to reconcile the Government's emphasis on manpower training with the paltry 1.7 per cent earmarked for this purpose during the plan period.

The foreign exchange element in the programme is estimated at $440m or almost 60 per cent of the total. Mauritius has already raised 40 per cent of the total cost of the programme, including 28 per cent of the foreign component. It needs to raise a further $440m, including $320m to meet foreign exchange costs, during 1988-90 plus an additional $260m to fund projects whose implementation will extend beyond 1990.

Mauritian fiscal management is cautiously conservative to the point where the plan projects underspending of some 10 per cent between now and 1990. The recent surge in inflation and the need to curb government spending suggest that actual project implementation will fall short of the ambitious targets, but monetary expenditure could well overrun plan projections as a result of higher inflation.

Financing seems unlikely to be a problem, given the high domestic savings ratio (25 per cent), the decline in both the foreign debt and the debt-service ratio – down to 12 per cent in 1987 from 27 per cent three years earlier and the country's much-improved international credit standing. Bottlenecks are more likely to arise on the implementation than on the financing side.

Tony Hawkins

Major projects in the three-year development plan (1988-90) are:

Northern Plains Irrigation Project (Stage II)	$41m
Bocage-Guibes Dam and Hydro-Power Project	$35m
Telecommunications Development Programme	$113m
Second Highway Project	$34m
Power Transmission and Distribution	$25m
Expansion of Thermal Generating Capacity	$24m
Renewal of Radio and Navigational Aids	$11m
Bridge Reconstruction Programme	$13m

Michael Holman on how the Government deals with environmental problems

A belated response on pollution

"NO SOCIAL or environmental pollution ... *only virgin* beaches embraced by coral reefs and translucent sea lagoons," declares a holiday brochure extolling the merits of Mauritius.

Alas, it is not quite true. The island does indeed have delightful stretches of clean sand and crystal-clear water, enjoyed *last year by 245,000* tourists. But the combination of inadequate sewage facilities, effluent from textile plants, over-use of fertilisers and pesticides, and waste from the sugar industry is causing environmental damage and threatening marine life.

"We are deeply concerned by pollution," says Sir Anerood Jugnauth, the Prime Minister, adding that the Government is taking action.

First steps include the establishment of an environment commission, an immediate clamp-down on some of damaging activities such as "mining" *lagoon coral, and setting* in train a major overhaul of legislation. In mid-year a national environmental campaign will be launched which is designed to create an awareness and sense of urgency that are currently lacking.

The groundwork for major longer-term development was laid in Paris last January when donors at a World Bank sponsored conference pledged $93m for an environmental protection programme to be put into effect over the next five years.

A British firm of consultants has been given the specific responsibility of drawing up plans to tackle the worst-hit area in the north of the island. *"The situation is under control,"* says Sir Anerood.

Many would disagree, however, including hoteliers who fear that years of neglect are *taking their toll, that the Government's* response is belated, and that senior officials have failed to grasp the depth and urgency of a challenge starkly *set out in a recent World Bank* report which formed the basis for the Paris discussions.

The seas and lagoons around Mauritius are "the ultimate sink" for most pollution created on the island, says the 100-page study. The precise extent of the damage to date is *difficult to evaluate,* partly because Mauritius has lacked adequate testing and monitoring facilities. Nevertheless, examples raised in the report are disquieting.

A national campaign will be launched to create the sense of urgency that is lacking

Three pipelines in the Port Louis area discharge largely untreated sewage into the sea: "Much floating sewage was seen to travel along the coast ... and part of it ends up from time to time in the lagoon of the holiday resort at Flic en Flac," on the west coast.

"Ear infections incurred by swimmers and inflammation of minor cuts and bruises have been reported in this area," the report continues.

Sir Ramesh Jeewoolall, Minister of Housing and Environment, disputes the report: "As matters stand, there is no problem," adding that nor was there a pollution problem in the past.

Seepage of insufficiently decomposed sewage from septic and infiltration tanks situated too close to the sea is *affecting "one of the most* popular tourist beaches on the island," warns the study, noting: "Sand along the waterline ... has been observed to be *badly contaminated* with seepage from an infiltration tank. The sand was grey, anaerobic and stinking of hydrogen sulphide over a length of about 100 metres."

In the Grande Baie area in the north, where many hotels are located, the report says that seepage from unsatisfactorily degraded septic tanks is encouraging the growth of plankton, which turns the water green.

Another concern raised by the report is the discharge of raw sewage by visiting yachts in Grande Baie, although there are disposal facilities at the local yacht club.

The Bank team visited three of the four sewage treatment plants operated by the Ministry of Works: "None ... was believed to be operating properly, because they lacked equipment, spare parts and had difficulty in obtaining adequate and timely maintenance repairs," observes the report, which warned that ocean discharge "is polluting the coastal region to an unknown degree."

"I am not aware of this, it is not correct," says Sir Ramesh.

The island's coral is also under attack. About 1 sq km of lagoon coral is being destroyed each year, taken for industrial use – "an unacceptably high figure", states the report, adding that "even on the barrier reefs, coral is extracted with crowbars."

A second major area of concern raised by the World Bank study is the high use of fertilisers and pesticides. Fertiliser consumption is put at 600kg per hectare – three times *higher than in Western* Europe. Pesticide application averages 44kg per hectare, "probably the highest in the world," five times the rate of Japan, the second highest user.

Pesticide application averages 44kg per hectare, probably the highest in the world

The potential consequences, notes the report, include contamination of ground water.

A third *critical* area *is the* liquid waste *from* the textile industry's dye houses – "one of the most serious environmental problems which has accompanied the nation's economic success."

At the time the report was being prepared (mid-1988) "virtually no effluent from any dyeing operation is treated properly, or treated at all. Raw effluents are discharged on land creating a public nuisance *and possibly contaminating* aquifers; they are also discharged in deep wells (eventually reaching drinking water aquifers) or directly into rivers .... clearly the situation is becoming uncontrollable."

The report goes on: "Many dyes are believed to contain chromium or other heavy metals which are both toxic to aquatic life ... other dyes are carcinogenic and may be affecting the health of dyehouse workers."

Some of the larger textile companies have, on their own *initiative, begun building* treatment plants, and all new companies have to meet anti-pollution standards. But smaller factories may be reluctant to embark on what is an expensive exercise, and monitoring remains lax.

When questioned about the report, a senior official in the Ministry of Industry said he did not believe that there was a significant environmental threat posed by dye operations.

The sugar industry also comes in for criticism. "Not a single mill in Mauritius treats its effluent wastewaters (which) when discharged into *rivers or coastal zone* robs them *of* any oxygen, killing fish ..."

The Bank report puts forward a comprehensive environmental programme, ranging from new legislation to substantial water and sewage treatment projects, for which the Government won financial backing in Paris. But much has now to be done before the Prime Minister's view that the situation is "under control" carries weight.

TEXTILES

Search for niches

AS GROWTH slows in the Export Processing Zone, in response to both domestic and external influences, so two distinct industrial strategies are being advocated. On the one hand, there are those calling for diversification – into leather goods, footwear, jewellery, toys and electronics – while on the other are those advocating vertical integration and an upmarket product strategy within the textile sector.

There is some common ground to the extent that both groups acknowledge that a changed pattern of industrialisation is inevitable and that the present heavy dependence on a broad range of low value-added textiles cannot be sustained indefinitely.

Diversification out of textiles has been an EPZ buzzword for several years now, but to date, little has been achieved. Thus five years ago, non-textile goods accounted for a quarter of EPZ exports, but in 1987-88 this ratio fell below 20 per cent. In 1983, the non-textile sector accounted for 14 per cent of EPZ employment but by last year the share had fallen to 9 per cent, while the industry's share in EPZ value added has risen from 80 to 88 per cent in the last six years.

Critics of diversification call for a more coherent and focused strategy that would identify a limited range of industries in which Mauritius might expect to develop competitive advantage. They argue that Mauritius now has a world reputation as a small-scale textile and garment manufacturer. The trick in the 1990s is to exploit the skills and expertise it has developed not by a leap into the conglomerate dark but by moving upmarket within textiles, relying on scale economies, increased capital intensity and vertical integration to develop a narrower and more sophisticated product line.

"We have to seek out market niches and stop trying to satisfy broad market segments," says one of the island's main textile manufacturers.

Two main influences – one external and one domestic – have changed the rules of the textile game in Mauritius. First in Mauritius itself supply conditions have changed radically. With the approach of full employment, labour is both costly and hard to find, while labour turnover has increased.

Critics argue that diversification may be a leap in the dark: the trick is to move upmarket

Production costs have soared, with wages rising 15 to 20 per cent a year in the past two years and utility charges have also increased, while the continuing depreciation of the rupee has pushed up the cost of imported inputs.

At the same time, there have been major changes on the demand side. Consumers in the EC and North America, the country's two main export markets, have become more discriminating about quality and less price-conscious. Product life-cycles have shortened, as have order lead-times.

In this situation flexibility is vital. Vertically-integrated producers who can satisfy fast-changing style requirements have thrived. At the lower value-added end of the market, small operators, many of them sub-contractors, are battling to survive.

In the subsequent shake-out there has been a rash of EPZ closures – mainly of poorly managed, under-capitalised firms – and today the textile sector is in the throes of a restructuring exercise which the Government believes will result in a healthier and better-balanced textile industry.

At the same time, recent applications for EPZ certificates show a marked shift away from textiles into jewellery, furniture, printing, footwear (Dunlop is looking at manufacturing shoes in Mauritius) and the film industry. Electronics remains on the diversification list but after the failures of the early 1970s, the thrust is towards local assembly for the domestic market and the manufacture of components in the belief that this will provide a firmer foundation for export development.

The investment in two major new weaving mills, currently under construction, will enhance the degree of vertical integration. The International Finance Corporation has lent $5m for one weaving mill, Socota Textile Mills, and also has a $1m equity stake in the project which will produce 7m metres of finished cotton and polyester fabrics annually.

Textiles will continue to dominate Mauritian industry for the foreseeable future, but during the next decade, a three-pronged strategy is likely to develop. Vertical integration and consolidation on the production side, a shift upmarket into higher value-added market niches and, thirdly, continuing efforts to diversify out of textiles altogether.

Tony Hawkins

Plans to create a regional financial centre

Offshore bank strategy could face pitfalls

THERE ARE two major potential pitfalls in Mr Vishnu Lutchmeenaraidoo's strategy for Mauritius as a regional financial centre, with Africa's first offshore banking network. The Finance Minister's plans carry the risks that drug money or South African flight capital will discredit the centre and the possibility that it will fail to attract a meaningful volume of deposits.

Mauritius has canvassed six potential candidates for offshore bank status – Barclays, which has a small retail banking business on the island; the Mauritius Commercial Bank (the island's largest) in tandem with Credit Lyonnais; the Government-owned State Bank of Mauritius in partnership with the State Bank of India; the Bank of Baroda; the Banque Nationale de Paris Intercontinentale, which operates an affiliate bank in Mauritius and Malaysia's South East Asia Bank, which was licensed to operate domestically last year.

An obvious gap, given the strength of the island's Asian trading links, is the Japanese, though the Bank of Tokyo and Mitsui Bank both figured in early discussions. Nor initially will be there a US, Swiss or West German presence.

The new banking act defines offshore bank as business conducted exclusively with non-residents, though this includes the EPZ sector, and in freely-convertible currencies. Banks are allowed to hold both *domestic and offshore* licences if the two types of business are kept completely separate. Offshore banks must maintain a capital base of at least MRs 25m ($1.75m) and net free assets (as defined internationally) at a level, which may vary from bank to bank, to be determined by the central bank. Offshore banks are also required to meet liquidity ratios, still to be specified.

The banking legislation has been sharply criticised by Mauritian bankers because they were not consulted and also because they believe that separate bills should have been presented to cover domestic and offshore banking. Despite these criticisms, the six banks to whom application forms have been sent are expected to *apply for licences and commence* offshore operations by the end of the year.

Bankers foresee little difficulty on the lending side, since with domestic credit ceilings in operation and most firms, especially those in the EPZ, frequently requiring offshore finance to fund imports and exports, abundant lending opportunities are anticipated. Furthermore, low overheads and lower international than domestic borrowing costs, should ensure reasonable profitability provided volume targets can be met.

But the deposit side is much more problematic. It is difficult to see *African capital – even* that from South Africa – seeking refuge in Mauritius since other, politically safer, havens are available in Europe, while the *failure of Bahrain – in the* same time zone as Mauritius – as an offshore centre is a blow. There is talk of the island being "a financial interface" linking Asia and Africa, but merchandise trading volumes are tiny and opportunities for building a deposit base from such operations are likely to be limited in scope.

On the credit side, Mauritius has excellent international communications, a strong, if narrow, domestic banking system and a track record in terms of foreign investment and domestic economic management that international banks might just find attractive. But the venture is something of a long shot and even the optimists expect the take-off to be hesitant and slow.

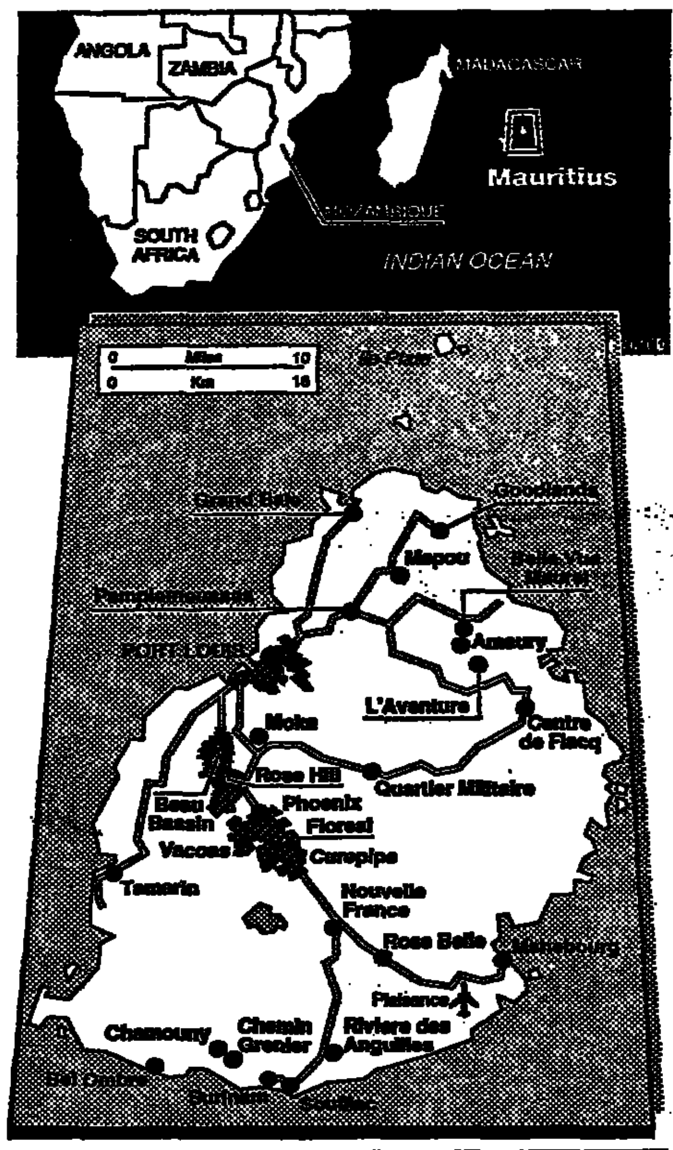
For the purely domestic banks, the offshore operation is unwelcome because it will increase competition both in the marketplace and for skilled staff. Some of them are going through a difficult time after the successful issue of MRs 300m of 7-year Treasury Bonds carrying interest at 15 per cent tax-free. The bonds were designed to mop up excess market liquidity but this was achieved at the expense of the banks, whose savings deposit rate was only 8 per cent.

Some banks grudgingly raised their deposit rate to 9 per cent last month, which was in line with the Government's anti-inflation policy and justified also by the rise in inflation to a forecast 15 per cent in the year to June 1989. Despite this, ministers complain that although interest rates were liberalised last year, the banks are still acting as a tight cartel with little price competition for deposits. The bank says that price leadership is normal anywhere in the world and that full liberalisation is incompatible with a 20 per cent ceiling on credit to the private sector.

However, with inflation on the rise, the authorities have little choice but to curb credit and push up interest rates. The combination of the external payments surplus and a 50 per cent rise in bank lending to the private sector resulted in a 45 per cent jump in the money supply in the 18 months to December 1988, despite the sharp cutback in government borrowing.

With arrears from the Chesworth public sector pay award to be funded over the next 15 months, the Government is keen to avoid bank borrowing to finance the increased budget deficit while, at the same time, anxious to limit the inflationary impact on consumer spending of the arrears pay-out. Consequently, higher interest rates and credit curbs are likely to remain in place at least for the next two years.

Tony Hawkins



STOCK MARKET

Incentives may not be enough

CAPITAL market development *has a high priority in Mauritius*, evident in the string of substantial incentives, announced in the 1988 budget, that are designed to foster stock market investment.

The Port Louis stock market should come on stream in mid-year, though many doubt whether it will have the major impact on savings and investment patterns that its sponsors hope it will achieve.

The new stock market will replace the largely-defunct informal "bourse" that has operated, with minimal turnover, for 200 years. As part of its ambitious programme to turn *Mauritius into* a viable regional financial centre, the Government hopes that the stock exchange will attract the savings of institutional and *small-scale investors, encourage* major Mauritian companies to list their shares, broaden the spread of share ownership to embrace the *Indo-Mauritian majority and*, later attract foreign investment.

A Stock Exchange Commission (SEC) has been estab*lished which, with French* technical assistance, is drafting regulations for the new market. To ensure professionalism, brokers are now required to pass a *qualifying examination* and some 24 new brokers have been registered, along with nine of the existing bourse dealers who were exempted *from the exams*.

The plan is to insist that the brokers establish dealing companies with a minimum of two brokers in each firm. A trading floor is being built and when the market opens prices will be *fixed once daily on the floor.*

One immediate snag is likely to be the shortage of scrip – with more dealers around than listed companies. Current esti*mates are that, initially,* only about 20 firms will be listed on the market. The SEC hopes to alleviate the threatened scrip shortage in three ways – by allowing second-tier quotations with less rigorous listing requirements, encouraging trading in unlisted securities (including companies that had been traded on the informal bourse) and dealing in govern*ment securities and Bank of* Mauritius bonds.

There is likely to be a shortage of scrip, with more dealers around than listed companies

To persuade Mauritians to participate in the market, 35 per cent of dividends received from *quoted* companies by an individual will be tax-free. This will be additional to the existing incentives whereby individuals do not pay tax on the first *$1,000 of income* received in interest and dividends.

Companies that obtain a listing will pay a lower rate of profit tax – 25 per cent instead *of the official 35 per cent rate.* Stamp duties on new issues of shares and other securities have been abolished for quoted companies along with registra*tion dues on share transfers.* Capital gains and profits of up to $7,000 in any one year on share dealings are also exempt from income tax. A State Mutual Fund has been established to enable small savers to *participate in the new market.*

But it is by no means clear that this package of incentives will generate enough investor enthusiasm on the savings side and corporate willingness to list shares on managements' side. Government savings bonds already offer a 15 per cent tax-free return, which is unlikely to be matched by equity investment unless very substantial capital growth is on offer. The SEC believes that capital gains may be attractive given the likelihood of a shortage of scrip, but this implies a *dull market with limited turnover* and, ultimately, little public interest and participation.

On the credit side, many Mauritian firms, especially those in the EPZ sector, are both under-capitalised and highly-geared. For them, new equity issues might be attractive, though it will be very difficult to match the earnings yield available on gilts.

Listed companies will have to make 20 per cent of their equity available to the public (10 per cent on the second tier market) and this, plus the need to abide by international accounting conventions, may well limit the number of firms willing to go public.

A further dampener is the fact that EPZ firms pay a profit tax of 15 per cent, already lower than the 25 per cent incentive rate offered to com*panies that go public. For this* reason, non-EPZ firms – hotels, the sugar sector, the large trading houses such as the Rogers group and Ireland Blyth, and the import-substitution industries catering to domestic demand – are more likely candidates for quotation on the Port Louis market.

Another snag is the absence of merchant banks from the Mauritian market, implying that the issuing house and underwriting function will have to be undertaken by the broker firms themselves.

There is a question mark, too, over the degree of foreign *participation. The Government* does not want to see Mauritian companies being taken over by foreigners via the stock market, which will both limit for*eign involvement and* necessitate a system of dual share certificates, whereby foreign-owned shares can be traded freely only among foreigners.

Mobilising and boosting domestic savings and democratising share ownership are worthy objectives, but progress down this road seems likely to *be very slow. The SEC's* decision to start operations on a limited scale and its evident determination to avoid financial scandals and controversial *take-overs by maintaining a* firm initial grip over the market is both understandable and pragmatic. At the same time, however, there is a danger of *disappointment* and even disillusionment within Mauritius itself because the stock market concept, worthy though it is, has generated unrealistic expectations.

TH

TRADE

Exports lag imports

RAPID ECONOMIC growth invariably gives rise to balance of payments problems. Mauritius is no exception. Since 1983 imports have grown faster than exports – averaging almost 30 per cent annually – while export expansion averaged 26 per cent. An obvious explanation for this is the high import content of two of the island's major foreign exchange earners – the Export Processing Zone and tourism, but imports surged in 1987-88 in response to increased investment and the consumer spending boom fuelled by major wage awards in both the public and private sectors.

The EPZ, being the most dynamic trade sector, has doubled its share of total exports since 1983 to 60 per cent last year. EPZ exports increased five-fold from MRs 1.8bn in 1983 to MRs 8.3bn last year, of which MRs 6.7bn represented textiles. More important is the growth in the zone's net exports, estimated last year at MRs 2.5bn or 18 per cent of total exports compared with MRs 400m or 10 per cent of exports five years ago.

Foreign exchange earnings, *including income from invisibles*, estimated last year at MRs 19bn, emanate from three main sources – the EPZ accounting for 44 per cent (with the textile industry's share at 35 per cent), sugar for 24 per cent and tourism for 13 per cent. A fourth element, whose significance is increasing, is income from port services and manager movements which contributes 9 per cent.

In the next decade the Government plans to develop the services sector with Port Louis becoming a free port and, by turning the island into an entrepot centre, offering warehousing facilities for foreign manufacturers seeking markets in Africa or even as far afield as the Comecon bloc. Mauritius with its strong foreign reserve base (17 weeks' import cover) hopes to establish itself as an international wholesaler, buying from Far Eastern suppliers and reselling in Africa and Eastern Europe.

At present, trade is dominated by the European Community and Far Eastern markets. Last year, EC countries supplied a third of total imports while East Asia supplied 28 per cent. Trade with Africa is tiny, with the exception of South Africa which last year was the second-largest supplier with 9 per cent of the Mauritian market, after France with 13 per cent. The US was in third place with 5.6 per cent of total imports but this was a one-off situation (the purchase of a Boeing aircraft) while Britain and Japan each had an 8 per cent market share.

The EC buys almost 80 per cent of Mauritian exports with Britain, the largest single market, absorbing some 35 per cent of total exports, mainly sugar. France is the second largest importer with 23 per cent of the market (chiefly textiles) and the US is in third place, quotas on Mauritian exports of clothing and textiles notwithstanding, with 12.5 per cent.

Mauritius is a member of the Preferential Trade Area embracing southern and eastern African countries but the volume of business is tiny with total trade estimated at only MRs 200m in 1988 (less than 1 per cent of the total). At present, the balance of trade favours the PTA whose exports to Mauritius of MRs 130m comfortably exceed its imports of less than MRs 50m.

The bulk of PTA trade is with Kenya and Zimbabwe and trade with these two markets, along with Madagascar, Malawi and the Seychelles, can be expected to expand more rapidly, given the new priority of regional markets being undertaken by the Mauritius Export Development and Investment Authority (Media).

The trade gap of MRs 2.5bn last year is forecast to narrow to MRs 2bn in 1989 as import growth slows to 6 per cent from 42 per cent in 1987 and 25 per cent last year. EPZ export growth will also slow to 17 per cent from almost 30 per cent a year in the last three years, but despite this exports are forecast to expand faster than imports – increasing 10 per cent in 1989 – for the first time since the early 1980s.

The current account of the balance of payments was in substantial deficit for a decade until 1986 when a surplus of MRs 1.25bn was achieved, but this has been eroded by rapid import growth and a marginal surplus of MRs 100m is estimated for 1988. Official forecasts point to modest current account surpluses over the next two years, though these will materialise only if import growth slows dramatically – which seems unlikely given the continuing slide in the rupee, higher inflation internationally and the strength of the domestic consumer boom – and if the strong uptrend in tourist earnings is maintained.

Tony Hawkins

INDUSTRY

Capital-intensive shift

SINCE 1983, the Export Processing Zone (EPZ) has been the powerhouse of the Mauritian economy, growing at more than 25 per cent annually. Manufacturing industry as a whole has grown at 15 per cent a year, boosting its share of GDP from 15 per cent in 1983 to 25 per cent last year, with the EPZ's share of GDP trebling from 5 to 15 per cent, *writes Tony Hawkins.*

Recently, the tripartite division of industrial activity into the Export Processing Zone, sugar processing and other import-replacement activities satisfying domestic demand has started to break down. Some firms have moved out of the EPZ to sell in the local market while home-oriented manufacturers have begun to export, especially to regional markets. New investors are being allowed the same generous incentives as EPZ producers to sell both locally and in export markets.

EPZ expansion has started to slow, slipping to 21 per cent last year because of bottlenecks in the labour market, in infrastructural capacity and in the construction sector. Officials expect growth to slow further to 15 per cent this year and 12 per cent in 1990.

Fewer new enterprises are being launched – 44 in 1988 compared with more than 100 a year during 1985-87 – while employment, which doubled between 1984 and 1986, fell slightly in the final quarter last year. But there is some evidence of a shift to a more capital-intensive pattern of production, with investment in plant and machinery increasing 27 per cent last year as against 18 per cent in 1987.

Despite the slowdown the EPZ's dominance – and that of textiles within it – is unquestioned. Last year, it accounted for 54 per cent of manufacturing value-added, up from 30 per cent in 1982, three-quarters of industrial employment and 60 per cent of total exports. The purely domestic industrial sector has grown at 7 per cent annually, despite the progressive erosion of its tariff protection since the 1983 trade liberalisation programme.

A changed pattern of industrialisation is inevitable in the light of the shift in the island's comparative advantage from low-skill labour-intensive to more skill-intensive activities, implying greater investment in both physical and human capital. Rapidly increasing wages and greater labour mobility, rising real estate prices and the need for anti-pollution investment by manufacturers are threatening the island's viability as a low-cost manufacturer, while some industrialists argue that productivity is no more than 50 to 60 per cent that of Hong Kong, underscoring the need for increased training at all levels.

The range of diversification options is constrained by the labour and skills shortage, the new concern to combat pollution, and physical limitations in terms of both space and infrastructure. But none of the chosen activities – leather goods, jewellery, toys, electronics – has yet come near to matching the take-off enjoyed by textiles.

"In the past, we have gone for quantity rather than quality when seeking new enterprises," says one industrialist. The search is on for more specialised, sophisticated, high value-added activities and two joint ventures in the computer software field – one British and one French – that will come on stream shortly are an indication of a new direction in industrial strategy.

Moves to counter labour shortage

Incentives for sugar planters

PRODUCTION AND processing of sugar still dominate the Mauritian economy, notwithstanding the great strides in the Export Processing Zone and the tourist boom.

Sugar provided one third of gross export earnings last year, with a substantially higher net return than the other two sectors. It accounts for 13 per cent of GDP, 15 per cent of total employment and generates 11 per cent of government revenue in the form of duty on exports. And 87 per cent of total arable land is devoted to the crop, which in the 1988 season produced 635,500 tonnes.

The 1989 crop was hit by the cyclone in January, but Agriculture Ministry officials believe that it did not do as much damage as first feared – though production may be down 10 per cent as a result. Estimates of the crop range from 580,000 to 610,000 tonnes.

Thanks to the cushion provided by access to the European Community at preferential prices guaranteed under the Lome Convention, sugar will remain the backbone of the island's agriculture for the indefinite future.

But an industry which underpins the island's economic health faces a major challenge: the labour shortage created by mainly by the growth of textile business. At the same time the workforce in the sector is ageing as more and more school-leavers make jobs in the Export Processing Zone or tourism their first choice.

The problem is affecting both groups of producers – the plantations attached to the island's 19 factories, which cover 51 per cent of land under sugar and account for around 60 per cent of output, and the 35,000 individual planters, 90 per cent of whom work plots of under two hectares.

Describing the situation as "alarming," Mr Vishnu Lutchmeenaraidoo, the Minister of Finance, last June gave a boost to mechanisation. He abolished customs duties and stamp duty on imports of all agricultural equipment, including spare parts.

This was followed up last December by the Sugar Industry Efficiency Act, which provides a wide range of incentives for both groups of producers.

These include:

- rationalising export duty, by establishing a uniform tax rate of 18.75 per cent, and setting the exemption limit at 3,000 tons of sugar;
- improving the small farmers' sugar apportionment ratio – the proportion of sugar held by the factories – from 74:26 to 76:24;
- abolishing export duty on molasses;
- exempting planters from income tax on the proceeds of the first 40 tons of sugar sold;
- improving the level capital allowance against tax to encourage investment;
- rebates on export duties paid by millers which increase according to factory efficiency in the extraction of sugar from the cane;
- measures to encourage use of bagasse – the cane waste – as a fuel for electricity production.

At the same time, the Government has set up four service centres for small planters, financed by a loan from the World Bank, which provide commercial and technical advice.

The moves have been widely welcomed.

Mr Kreepalloo Sunghoon runs the Northern Planters Association, representing about 870 smallholders. He estimates that the tax breaks mean that over 90 per cent of the association's members no longer pay income tax.

But he warns that the labour shortage in the coming harvest – end-July to mid-November – will be "acute." Last year during the harvest peak labour rates doubled, says Mr Sunghoon.

He agrees that mechanisation could ease the problem: "Mechanical loaders could save a third of labour costs, and in the off-season they could be used for derocking" – gathering up and piling into cairns the volcanic boulders that dot the landscape.

Such equipment is beyond the reach of the individual smallholder, and Mr Sunghoon believes the answer is for associations such as his, or smaller groups of growers, to club together and buy the labour-saving equipment.

But this proposal will take time to implement, and most observers believe the labour shortage will hit the 1988-89 crop.

The labour problem aside, the sector continues to peg its fortunes to two vital quotas, offered by the European Community and the US.

The bulk of exports goes to the Community – mainly to Britain – under the Sugar Protocol of the Lome Convention, at a price well above market-determined levels. The EC quota for 1988-89 is 507,200 tonnes. The US quota for the same period has been set at 12,100 tonnes.

Michael Holman

Fight to stay upmarket undermined by trips from Reunion

Rethink under way on tourism

THE MAURITIAN tourist industry has boomed over the past decade: from 103,000 visitors in 1978 to 245,000 last year, worth MRs 2,500m ($175m) in gross foreign exchange earnings and providing over 6,000 jobs, with many more created indirectly.

But some demanding issues must be resolved. Government officials have in the past set two targets for the decade to come – 325,000 in 1992 and 400,000 by the turn of the century.

Can development of the island's infrastructure keep pace with the increase? How will this be funded? Will the efforts to overcome serious environmental pollution take effect before the island tarnishes its image of "virgin" beaches and clear sea? Can Mauritius continue to secure the upper bracket of the market as the number of tourists increases so dramatically?

The answers were not readily apparent in an unusual Government white paper on tourism published last year, drawing on a wide range of authorities, including P Evrev, a "world-famous" Bulgarian consultant, and acknowledging inspiration from Thoughts of Lao, by the Chinese philosopher Tzu.

The broad objectives, hoteliers agree, are sound. The document stresses the need to protect the environment, and advocates the encouragement of a wider range of tourist activities, such as ballooning, deep sea diving and golf.

It supports greater regional co-operation in the tourist sector – linking up with the Seychelles, for example, and encourages the attempt to win new markets in Japan, Australia, the Middle East.

Future hotel expansion should take place in designated areas rather than the haphazard development that has characterised the sector during the past decade. The size of a hotel should not exceed 200 rooms. Training for the sector will be increased.

But neither the white paper nor the National Development Plan set out a convincing blueprint which, when implemented, will turn these principles into reality, or indeed explained why 400,000 tourists in year 2000 is an appropriate target.

A major rethink is under way under Mr Michael Glover, the able new Minister of Tourism. "We have to do far more planning and preparation before we commit ourselves to targets," he says. "We must keep a balance between tourists and the island's population of just over 1m.

Mr Glover intends to continue the policy of diversifying the island's market, helped by new long-haul routes operated by Air Mauritius, the national carrier, and other airlines.

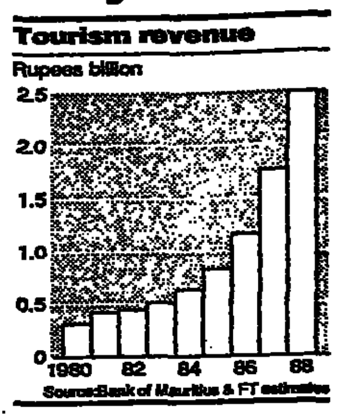
In 1978 nearly two-thirds of the tourists came from three sources – South Africa, France, and Reunion, an island department of France which is a short hop away from Mauritius. By 1987 the proportion had fallen to just under 60 per cent, with the percentage of visitors from Italy, Germany and Switzerland more than doubling. The clearest fall in market share has been South Africa, dropping from nearly 28 per cent of the visitors (1984) to around 14 per cent last year – though the number of South Africans coming to Mauritius has steadily increased from 19,000 in 1978 to an estimated 33,000 last year.

The percentage is expected to fall further in the years to come – not because of any discouragement of South African tourists, but as a result of efforts to widen the market.

Meanwhile the authorities are keeping a close eye on the role of Reunion. In the effort to keep Mauritius an upmarket destination, charter flights have been banned. But tourist officials point out that many French visitors are taking charters to Reunion (there are three a week), and then making the short journey to Mauritius "with their knapsacks, and looking for cheap accommodation."

There is no easy answer. The charter flights cannot readily be curbed, and this lower end of the market is readily catered for by bed and breakfast facilities provided by Mauritian families with a flat or cottage by the coast.

Michael Holman



HORTICULTURAL EXPORTS

Bearing fruit

BERTY MALABAR personifies several strands in the Government's agricultural diversification policy. The take-off of his fruit and vegetable export business owes much to tax breaks, Export Processing Zone incentives and support from the Development Bank of Mauritius, writes Michael Holman.

Brand recognition of his products is helped by the tourist sector's publicity for the island, and the increase in airlines operating long-haul tourist routes provides ample freight capacity, and gets Mr Malabar's products on Europe's shelves within 24 hours of picking. But perhaps the key factor is his entrepreneurial drive.

From what was almost literally a backyard fruit and vegetable business, he has moved into the export market. He now operates from a spacious new warehouse in the Phoenix industrial estate 40 minutes from the island's new airport.

Seven years ago his family business sent 250 kilos of pineapples, passion-fruit, papayas, litchis, mangoes, avocados, green beans and okra to Europe. Today his new facility has a capacity of several tons a day, which will rise to 30 tons when a second phase is completed.

The warehouse, which employs up to 50 people depending on the season, is currently handling one ton. Mr Malabar hopes to reach the plant's limit in three to four years. Refrigeration units for four cold stores are soon to be installed, along with a weighbridge – brought in duty-free, like the rest of the equipment, under EPZ terms.

"Otherwise I couldn't have afforded it," says Mr Malabar.

The Development Bank provided 60 per cent of the project's MRs 6m cost. As a scheme which was granted an agricultural development certificate, Mr Malabar's tax ceiling is 15 per cent.

How does Mr Malabar cope with competition from Kenya, which is closer to the European market? "Provided we offer quality, purchasers are prepared to pay a premium."

Two critical factors will determine the success of the operation. The plant is supplied by smallholders, who need encouragement to expand their output. Sugar production dominates the agricultural sector, and land is in short supply. A smallholder has to weigh the benefits of higher income from fruit and vegetables for the overseas market against a more modest but, in effect, guaranteed return from sugar.

The second factor is weather. Mauritius is in the cyclone belt. A January cyclone caused millions of dollars worth of damage, not only to the sugar crop, but in some areas wiping out fruit and vegetables that were in season – mangoes and avocados.

Mr Malabar's longer-term aim is to go into plantation production of items such as litchis. The Government is leading the way, and has set up at Pamplemousses a 10-hectare litchi orchard under irrigation, and leased to 25 growers.

Mauritius has also moved into the cut flower market, notably the anthurium, an exotic reddish-pink bloom looking rather like a pair of elephant's ears with a protruding yellow trunk, or spadix.

Exports of what is becoming the island's brand symbol – along with the dodo, the now extinct wingless bird – have soared. A market worth MRs 29,000 in 1972 reached MRs 24.6m in 1987, with the low-weight, high-value blooms going round the world. The value of fruit and vegetable exports is modest – MRs 42m in 1987 – but the scope for expansion is considerable.

BUSINESS GUIDE

MAURITIUS offers a happy medium for the business visitor, seeking efficiency while maintaining the quality of life. Telecommunications are excellent and help is readily available from ministries and Media (the Mauritius Export Development and Investment Authority), writes Michael Holman.

Most civil servants start work at 9 am and finish at 4 pm. So pack your swimming costume and golf clubs (there is a picturesque course opposite the beachside Trou aux Biches hotel, 20 minutes from the capital, Port Louis) but remember to come with plenty of business cards, an essential part of every introduction.

There is no first-class hotel in Port Louis, but few visitors stay in the city since so many splendid resorts are within a 30-minute drive. Taxis are reasonably priced and most offices and government ministries are within a few minutes' walk of each other.

La Bonne Marmite, Sir William Newton Street (2-2403) is a pleasant city centre restaurant which offers a delicious palm heart salad. La Flore Mauricienne, Intendance St (2-2200) is also recommended. The Taj Restaurant, Sir Wm Newton St 08-9623, provides good food and a top floor verandah view of the harbour.

One of the first ports of call should be Media, Jamalacs Building, Old Council St, Port Louis, tel: 08-7750/54; telex: 4597; fax (230)085965. Officials will advise on every aspect of doing business.

The Mauritius Export Processing Zone Association represents and advises businesses which have taken advantage of wide-ranging government investment incentives. 42 Sir Wm Newton St, Port Louis. Tel: 2-1853/08-5216; tlx 4612.

Help and information can also be obtained from:

Mauritius Chamber of Commerce and Industry, 3 Royal St, Port Louis. Tel 08-3301; tlx 4277; fax (230) 08-0076.

Mauritius Employers Federation, Cerne House, Port Louis. Tel 2-1599; tlx 4220.

Development Bank of Mauritius, Chaussee St, Port Louis. tel 08-0241; tlx 4248; fax: (230) 080076.

MINISTRIES (Port Louis)

Prime Minister's Office – tel 01-1017; tlx 4249.

Finance – tel 01-1146; tlx 4249.

Industry – tel 01-1068; tlx 4249.

Trade – 01-2123/4; tlx 4249.

MAIN BANKS

Bank of Mauritius, Sir Wm Newton St. tel 08-4164; tlx 4253.

Mauritius Commercial Bank: 08-2801

Barclays Bank: 2-1816

Hong Kong Bank: 08-1801

Bank of Baroda: 08-1504/5

BNPI-La Banque Nationale de Paris: 08-4147

Habib Bank AG Zurich: 08-0848

Bank of Credit and Commerce International: 08-8485.

CAR HIRE

Avis: Al-Madina St, Port Louis: tel 08-1624; tlx 5239; fax 08-1014.

Hertz: Royal Rd, Curepipe tel 86-1453; tlx 4435; fax 866425

HOTELS

☐ North of Port Louis

Trou aux Biches: tel 03-6562; tlx 4464

Royal Palm: tel 08-8353; tlx 4853

PLM Azur: tel 03-6336; tlx 4799

Auberge Isle de France: tel 03-8544; tlx: 4217

☐ South of Port Louis

Le Pearle Beach: tel 53-8428; tlx 4471

La Pirogue Sun: tel 53-8441; tlx 4255

☐ With fax machine

Meridien Brabant: tel 53-6781; tlx 4444; fax 53-6786

Meridien Paradis: tel 53-6775; tlx 4227; fax 53-6786

VISAS AND HEALTH

No visas required for Commonwealth passport holders, EC, Scandinavia, Japan, US, South Africa, Oman, Quatar, Saudi Arabia, United Arab Emirates.

Yellow fever and cholera vaccination certificates may be needed if arriving from infected areas. There is no malaria in Mauritius.

Plaisance Airport is 30 miles from Port Louis.

FINANCIAL TIMES
COMPANIES & MARKETS
Monday March 20 1989

INSIDE

NFC rolls towards an £87m profit

NFC, the UK freight and distribution group which was floated on the London Stock Exchange last month, has delivered on its promise to announce a profit estimate for the current year. Sir Peter Thompson, chairman, told about 2,000 shareholders at NFC's annual meeting in Brighton on Saturday that the board's "best view" of pre-tax profits for the year to September 30 1989 was £87m ($148m). John Thornhill reports. Page 32

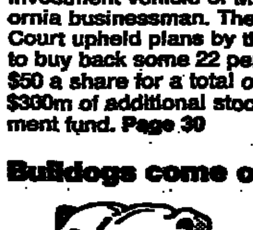
Life with a thinking computer

Artificial intelligence systems, where computers make human-like judgments, can speed up professional work by at least a factor of ten – and even a factor of 40 is common. So says Professor Edward Feigenbaum, a pioneer of "expert systems", in a recent book. But if AI is such a powerful business technology, why are not more companies using it? Peter Martin examines the question in the Business Column. Page 44

Court victory for Polaroid

Polaroid has won a major court victory that significantly increases its chances of defeating a takeover offer from Shamrock Holdings, the investment vehicle of Mr Roy Disney, the California businessman. The Delaware Chancery Court upheld plans by the photography group to buy back some 22 per cent of its shares at $50 a share for a total of $800m, and to sell $300m of additional stock to a friendly investment fund. Page 30

Bulldogs come off the leash



Last week's UK budget opened up the Euro-sterling market to create what one analyst called a level playing field. The removal of the Bank of England queueing restrictions on domestic and Bulldog issues means Euro-sterling deals will have to compete more directly with these other sectors, reports Andrew Freeman. Page 28

Market Statistics

Companies in this section

Elders Brewing Group

	June 1988	With Molson joint venture	With S&N*
Sales (A$bn)	4.7	5.0	7.0
Volume (m hectolitres)	21.0	22.6	29.4
World ranking (by volume)	7th	7th	4th
Market share (%):			
Australia	48	48	48
UK	10	10	21
Canada	20	53	53
Breweries	19	26	34
Staff	12,000	16,000	29,000

* half share

The global pub crawl

Gordon Cramb looks at Elders' expansion strategy

THIS WEEK could be decisive for British brewers, which are awaiting the verdict of the Monopolies and Mergers Commission on the way their industry sells its products, as well as the view the competition authority will take on the £1.6bn ($2.7bn) contested bid for Scottish & Newcastle by the Australian-based Elders IXL.

Lord Young, the UK Trade and Industry Secretary, is expected to pronounce on both MMC reports soon, and simultaneously. Taken together, they are thought likely to provide the dray-cart which will convey UK beer production into the 1990s, and into the single European market.

Whatever the decisions, they will have a significant effect on the global brewing strategy of Elders, which owns Courage in the UK and wants the extra capacity S&N can provide.

Elders, producer of Foster's lager, proclaims itself untroubled by one key aspect of the wider MMC inquiry – a mooted separation of brewing activities from the "tied" ownership of public houses. The group takes the view that an end to tied houses in the UK offers, if anything, more opportunities to "Fosterise" a market which until recently was too riven by local brand loyalties.

Blocking of the S&N bid would be a blow, despite some City suggestions that Elders might not renew its offer anyway. At the same time, though, Elders is looking at possible links with other European brewing groups. In the UK, Foster's is produced under licence by Grand Metropolitan as well as by Courage, and Elders is keen to extend its presence on the Continent, where it already has one licensing accord, with the state-controlled Pripps of Sweden.

Last week, intriguingly, the European Commission launched its own review of competition policy in the industry. This may overturn an exemption granted to EC brewers in 1984 which allows them to exclude rival products from retail outlets which they supply.

If Elders wins S&N, within two months of completing the acquisition it plans to set under way the spin-off of Elders Brewing Group (EBG) as a separate quoted company, with headquarters in Edinburgh and control of the group's worldwide beer operations. This could be done within two years, but Elders says that even if it is denied S&N, the EBG base will be moved to London and the flotation will go ahead.

Analysts see EBG as creating the world's only "pure" multinational brewer. This reflects:

- A diversification by other big beer producers into food, leisure and related areas, which EBG says it will largely avoid.
- Elders' move last year to put its Courage estate of some 5,000 public houses into a property joint venture. "In one sense, we have already broken the tie," says Mr John Elliott, chairman.
- The geographical scope of its operations, which mean that EBG produces as much beer abroad as it does in Australia.

The inclusion of S&N would lift its ranking in the world league from seventh to fourth, bringing worldwide capacity to some 29.4m hectolitres and EBG revenues to A$7bn ($5.6bn).

Already this year the company has acted to rearrange its operations in North America where it owns Carling O'Keefe, the third largest Canadian brewer.

In a deal reached in January with rival Molson, the beer businesses of the two are to be combined to create a unit that will supply more than half the beer sold in Canada and take top spot in the marketplace from John Labatt.

More importantly, the move improves prospects for sales in the US market for premium-priced imported brands – a sector which, although it accounts for only 5 per cent of the national total, bigger than the whole Australian beer market.

Elders says it is not interested in big US brewing takeovers. In the week before the Molson deal – which itself involved no cash changing hands – Elders sold a US$75m investment holding in Anheuser-Busch, maker of Budweiser and the world's biggest brewer.

The stake represented barely 1 per cent of Busch and most analysts were sceptical anyway that Elders, with an estimated A$2.2bn in debt and more held off balance sheet, could have mounted a full bid.

EBG sees local manufacture as largely counter-productive in the American market where distinctive marketing and a foreign cachet can produce rapid growth.

In the US "we are not taking the majors head-on," says Mr Elliott, whose caution contrasts both with his usual think-big ebullience and with the route followed by Mr Alan Bond, his chief domestic rival.

The Perth-based Bond Corporation, maker of Swan and Castlemaine XXXX, in 1987 paid $1.8bn for G. Heileman Brewing, a clutch of regional producers which together comprise the fourth largest US beer maker.

In Australia the two groups dominate a market in which consumer allegiance along state lines is being steadily eroded.

As regards its overseas expansion, Elders says that if the S&N outcome is unfavourable it has British alternatives in mind, and that the outcome of the industry-wide inquiry will signal the pace of any further consolidation in UK brewing.

Mr Andrew Cummins, Elders' strategy director, says that expansion into Continental Europe could come either through exports from the UK, given the capacity Elders needs, or by local manufacturing.

Certainly, a deal-driven group like Elders will in the coming months pay close attention to the views being assembled in Brussels on brewing across the Community.

Wall Street gets frightened of shadows

By Anthony Harris
in Washington

Most harassed executives know the behaviour described by psychiatrists as displacement reaction, and by ordinary mortals as kicking the cat. Your superior is being impossible, and you can't do anything about it, so you take out your frustrations on the family pet. This seems to be the most rational explanation of two odd outbreaks of food panic in the US last week.

The Chilean grape story needs no retelling here; the Food and Drug Administration, after consulting the White House, nearly brought the most robust economy in Latin America to crisis on account of two grapes, slightly tainted with cyanide.

This wild over-reaction may compensate for the under-reaction to a threat which has killed more than 100 people in the District of Columbia alone this year: automatic weapons in the hands of people in the grip of the rage and paranoia caused by hangovers from cocaine intoxication. A temporary import ban on these weapons is a welcome retreat from the Rambo slogans of Mr Bush's election campaign, but does nothing about the estimated half million deadly weapons in circulation, a fair proportion in the worst possible hands.

The sabotage threat that provoked the search for poisoned fruit has been repeated; but the President, whose most potentially promising initiative since he took office is a plan to reduce the debt service burden on Latin America, has now decided that the risk is acceptable. This suggests that he knows that the initial ban was an irrational step, reflecting perhaps the general nervousness about public safety.

The school authorities who banned apples last week on account of a supposed health threat from an orchard chemical, Alar, demonstrated the same pattern. The public school system cannot teach a small but important percentage of its pupils to read, and cannot keep a larger percentage off hard drugs (though some schools do now collect firearms at the door); but it can, by Adam, protect them from tainted apples. This ban, like the grape ban, has now been withdrawn, on no new evidence.

Last Friday the same jumpiness seems to have spread to Wall Street, but there is unfortunately little reason to hope that more rational judgment will be restored within the week. The worldwide financial market setback provoked by the latest US producer price index is another over-reaction, this time to what is even more than usually a lagging index. However, it may well be reinforced tomorrow when the same well-known increases in some commodity prices appear in the consumer price index.

The detailed figures show that this is to quite a large extent yet another case of supermarket panic. Producer prices have been rising for some time at an average rate of 0.4 per cent a month, but in the first two months of this year they have risen a full percentage point. Half of the February overshoot was due to food prices, or more accurately to the prices of fresh rather than processed foods.

This in turn reflects two events which have nothing to do with the general state of the economy: vile weather in California, which provides much of the winter produce for the supermarkets; and a sharp rise in meat and poultry prices as a result of last year's drought, an increase which was forecast quite accurately as much as six months ago.

Nearly all the rest of the overshoot can be attributed to Opec, whose actions are known to everyone in the markets. Apart from food and energy, the PPI rose 0.5 per cent in February, almost on trend. The markets, in other words, were reacting to special factors in the recent past as if they were general trends which could be projected into the future. The Fed, which did not use Friday's fright as an opportunity to force the funds rate up another notch, may well prove more rational.

The trend in food prices may in fact be sinister. California has suffered not only frosts and snowstorms, but it is still waiting for relief from last year's drought; and it is far from clear at this stage that conditions in the rest of the US farm belt will return to normal this year. It is unlikely that US food prices will go on rising as they have, but they may not come down as was once hoped.

This has been clear to the Chicago commodity traders for months. However, this is a long-term problem, and we learned nothing new about it last Friday, when the markets not only over-reacted to news they should have anticipated, but ignored some rather good news even in the PPI figures.

This was that costs pressures further down the pipeline, in the crude and intermediate stage of productions, seem to be subsiding after the strong rises last year. The prices of other industrial supplies, apart from energy, were unchanged in the month, while those of partly-processed industrial inputs, apart from food and energy, rose 0.5 per cent; this is the average pace for the last four months, and somewhat below the average for 1988.

Other recent evidence suggests a domestic slowdown, especially in housing and heavy consumer durables. This is reflected in the much calmer tone of the latest Federal Reserve Beige Book, which gives on-the-ground reports from member banks.

A rational market, then, might conclude that the recent news is rather reassuring on inflation. A trend up to 6 per cent or a little more has been apparent for some time; but it is easier than it was a few weeks ago to feel this will be a peak rather than a new trend.

The rate is unlikely to come down to the very low levels for 1987 and most of 1988, when underlying inflation was suppressed by the oil glut, and by ferocious competition at the retail level, which drove margins down to a survivable minimum; but it does seem likely to fall back to around 4 to 4.5 per cent.

The fall in consumer spending, and what even the Fed describes as slack demand for new credit, is also reassuring on the balance question. Its reflection, the higher saving that some believers in demography have been expecting all along, will reduce imports, and lessen the urgency of the importance of the still invisible progress towards a sensible federal budget.

The Joint Economic Committee of Congress has just provided an interesting budget footnote: it seems that the search for loopholes in the Gramm-Rudman deficit reduction process has not been quite so successful as I have suggested in this column. The JEC shows that when all expenditures are allocated to their proper year, the big swindle was the one on 1987, when no less than $37bn of spending was pushed into adjacent years.

This year they put the "true" Bush deficit at $127bn, leaving a gap over the $100bn target which a rational government could bridge. If Mr Bush can be persuaded to treat his read-my-lips slogans as rationally as he has now treated his commitment to no gun control, there will really be something to celebrate.

Dissent in the monetary ranks

THE DELORS Committee has got down to serious talking after six month's fencing.

Last's week row among the 17 European Community central bank governors and outside experts who are studying possible "concrete steps" towards economic and monetary union in the EC shattered a growing belief that it would be easy for all the central bankers except Mr Robin Leigh-Pemberton, the Governor of the Bank of England, to sign up to a joint report.

Difficult discussions lie ahead. Mr Karl-Otto Pöhl, the Bundesbank president, is notably less optimistic that the Delors group can agree a text marking out steps towards economic and monetary union by the planned end-April deadline. Last week he said that "lots, lots" of amendments would have to be made to the latest draft. A month earlier, Mr Pöhl said he was pleasantly surprised by the high level of consensus in the group.

But the differences over whether the latest draft envisaged too rapid a movement towards economic and monetary union do not necessarily mean that Mr Leigh-Pemberton has acquired allies to support the British Government view that economic and monetary union should be off the agenda for now and the foreseeable future.

The Delors Committee contains a number of shifting alliances and interests. Although Messrs Pöhl and Leigh-Pemberton and Mr Pierre Jaans, Luxembourg's representative in the group, opposed the latest draft they are far from forming a united front.

Mr Pöhl heads a group which is opposed to rapid change in Europe's monetary arrangements but not opposed to change *per se*. Other members are the representatives of Luxembourg, the Netherlands and Denmark, the latter having switched sides after supporting Britain when the Delors group was constituted last summer.

These Delors group members want all the EC countries to become full and equal members of the EMS before moving on to new goals.

Although sceptical about monetary union, they do not rule it out as a distant objective, providing sufficient progress is made towards integration in other areas of the European economy.

A major concern of this group, which is thought also to include Ireland, is that premature progress towards monetary union could lead to massive disruption in the EC's weaker economies and destroy all that has been achieved in the EMS. This group supports Mr Pöhl's "crowning" theory by which a common currency and central bank for Europe come at the end of a very long process.

The other main group is the Euro-enthusiasts. France, Italy and Spain, with the possible addition of Belgium, support rapid progress towards monetary union.

Both Italy and France have put forward proposals to develop the EMS in this direction. It appears not to worry the enthusiasts that they fall short of the Mr Pöhl's definition of full EMS members.

France, though making strides towards the elimination of exchange controls, will not be rid of them until 1990. Italy has exchange controls and wide 6 per cent fluctuation margins for the lire in the EMS.

Belgium operates a two-tier exchange market, while Spain is outside the EMS exchange rate mechanism.

These countries appear to subscribe to the "bicycle" theory of international monetary relations by which it is necessary to move forwards, irrespective of problems, for fear of falling when standing still.

Outside the two main groups is Britain, by virtue of its non-membership of the exchange rate mechanism and Mrs Thatcher's well known refusal to cede sovereignty on monetary issues.

After last week's spat in Basle, Mr Leigh-Pemberton could be forgiven for thinking that his problems had eased.

But the message coming from Mr Pöhl and his friends was that they want Britain to sign up as a full member of the EMS and that their patience could run thin in the absence of action by London.

Nice Little Runner

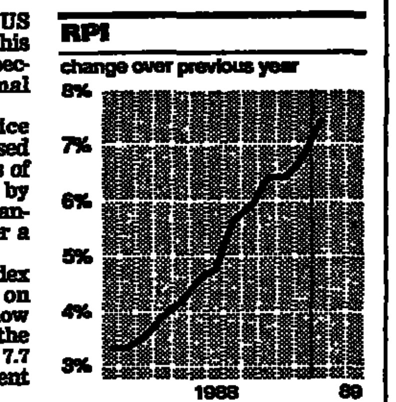
Last week's Budget fell far short of what the industry lobbies had hoped for by way of tax relief. But the Treasury believes the Chancellor's decision to increase the profit limits for the so-called small companies' corporation tax rate in 1989-90 deserves more than mere footnote treatment. It is, said one senior official, "a nice little runner."

The Treasury estimates that about 23,500 companies will benefit from increases in the limit for the reduced 25 per cent rate from £100,000 to £150,000 and the limit for marginal relief from £500,000 to £750,000 ($1.28m).

Compared with the amount of tax paid by the 16,000 companies which earn more than £750,000, the overall saving to industry of £35m in 1990-91 will be small. But the Government believes that the changes will help small innovative companies in a time of economic slowdown. The lower rate should also encourage an increasing number of smaller firms to raise equity finance rather than rely on bank loans.

Peter Norman

THIS WEEK



INFLATION rates in the US and UK take centre stage this week and could influence speculation about international trends in interest rates.

The US consumer price index for February is released tomorrow and the consensus of analysts forecasts, compiled by MMS International, the financial research company, is for a 0.5 per cent rise.

The UK's retail price index for February, published on Thursday, is expected to show a 0.6 per cent rise, taking the annual rate of inflation to 7.7 per cent – up from 7.5 per cent in January.

Other US statistics include personal income and consumption figures for February, due on Friday, which will give a guide to the buoyancy of the consumer sector. Rises of 0.5 per cent and 0.4 per cent are expected respectively.

Wednesday's advance report on durable goods for February, measuring orders in the pipeline, will provide an indicator of future industrial production. The consensus is for a 1 per cent rise.

As well as inflation, UK statistics also include today's money supply figures for February which will provide pointers to economic activity and borrowing.

M0, the narrow measure consisting mostly of notes and coins in circulation, is expected to show a fall of 0.7 per cent. M4, the broader measure including bank and building society deposits, is forecast to have grown by 1.7 per cent. Bank and building society lending is expected to have risen by £6bn ($10.2bn).

In France, trade statistics for February are released on Friday. Little improvement seems likely after January's FFr2.8bn ($444m) trade deficit. Analysts will be looking for trends in imports of investment goods, particularly from West Germany.

French industrial production figures for January, due today are likely to show the strong underlying growth rate continuing.

West German money supply figures for February are expected sometime this week.

Other events and statistics (with MMS International consensus of analysts' forecasts in brackets) include:

Today: Mr Nigel Lawson, the UK Chancellor, winds up House of Commons debate on last week's Budget. US three-month, six-month Treasury Bill auction.

Tomorrow: US Federal budget for February (-$36.4bn). Three-month, sixth-month Treasury Bill announcement.

Wednesday: UK building societies monthly figures for February. Manufacturers' and distributors' stocks in fourth quarter 1988. February cyclical indicators. Mr Alan Greenspan, US Federal Reserve Chairman, testifies before House Banking Committee on President Bush's proposed thrifts rescue plan. Two-year, four-year Treasury note announcement.

Thursday: US revised gross national product in fourth quarter 1988. (rise of 2.0 per cent). Three-month, six-month Treasury bill settlement. Japanese household consumption in January.

Friday: US home sales in February (fall of 4.0 per cent). UK Good Friday bank holiday.

INTERNATIONAL CAPITAL MARKETS

EUROCREDITS

An insight into US leveraged lending

EUROPEAN bankers who cannot comprehend the willingness of their American counterparts to pile into highly leveraged loan transactions would be well advised to turn to the annual accounts of their competitors for insights.

Two leading US bank holding companies, J.P. Morgan and First Chicago Corporation, last Friday released their 1988 annual reports containing detailed information about the leveraged lending of both groups.

The reports also shed light on why banks have reacted so strenuously to suggestions in Congress, in the aftermath of RJR Nabisco's $25bn management buy-out, that some tax advantages available to highly leveraged borrowers ought to be restricted.

First Chicago said that, without its financing of leveraged buy-outs (LBOs), its net income would drop by about 7 per cent in one year and its revenues by about 2 per cent. The bank took about $3.5bn in LBO loans on to its books in 1988 and said it had retained about 52.8 per cent of that exposure. It plans to very modestly increase LBO lending in 1989 to $3.6bn. The loans generated $32m in fees in 1988, with another $10m deferred.

Similarly, J.P. Morgan, parent company of Morgan Guaranty, said in its annual report that, while it would be difficult to make accurate estimates of an immediate cessation of all newly initiated highly leveraged transactions, the bank believes such a cessation could reduce its net income by up to 5.0 per cent and its gross revenues by up to 1.0 per cent in the first year after cessation.

Meanwhile, in the Euromarkets, only a handful of deals emerged. The largest of these was a $400m banking facility for Uarco, a Chicago-based manufacturer and supplier of business forms. The company has just recently been purchased by Setsu, a Japanese paper board manufacturer which is providing a keepwell agreement.

The facility is being arranged jointly by Credit Suisse First Boston and Sumitomo Bank and is in two parts. The larger of the two is an eight-year $250m amortising term loan with a margin of 50 basis points over London inter-bank offered rates (Libor). There is also a $150m five-year bullet revolving credit facility, also with a 50 basis point margin. Both facilities include a supplemental margin of up to 50 basis points, the payment of which is linked to the Uarco's interest coverage ratios. Initially, the full supplemental margin will be paid on both facilities.

The deal is unusual in that the borrower is the acquiree, and is paying a substantially higher margin than any bank would demand of the new parent company. However, the interest payments will be used to offset income generated by Uarco, thus offering tax savings greater than the reduction in interest rates that could be achieved by designing the loan as an obligation of Setsu.

CSFB also said it has increased the size of its seven-year standby facility for Compagnie Financière Michelin, the tyre maker, to $400m from the $150m initially planned. The margin is ⅛ over Libor with a facility fee of 1/16 and a utilisation fee of 1/16 if more than 50 per cent of the facility is drawn.

Swiss Bank Corporation said it has completed the syndication of a $65m five-year revolving credit facility for Merloni Elettrodomestici, the Italian white goods manufacturer. There is a margin of 30 basis points and a commitment fee of 15 basis points, with a utilisation fee of five basis points if outstandings exceed 50 per cent.

Norma Cohen

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	2,965.1	11.2	850.7	11,144.5
Prev	4,392.2	448.7	598.0	11,462.1
Other	4,157.4	644.2	763.1	4,328.7
Prev	4,456.7	56.4	724.4	1,748.7
Secondary Market				
US$	12,697.5	1,271.9	4,612.9	7,203.5
Prev	15,286.9	1,022.9	6,702.2	6,632.2
Other	17,976.4	1,116.8	3,818.9	26,865.9
Prev	18,842.8	855.2	4,586.5	22,764.3
	Cedel	Euroclear	Total	
US$	9,850.3	30,907.0	40,757.3	
Prev	11,103.5	35,441.7	46,545.2	
Other	25,492.7	34,178.7	59,671.4	
Prev	24,740.9	29,294.1	54,035.0	

Week to March 14, 1989 Source: AIBD

INTERNATIONAL BONDS

Interest rate outlook remains a depressing factor

IF THE OUTLOOK for world interest rates remains as thoroughly depressing as it was at the end of last week, then investors might decide that 1989 is not the year for fixed-interest investments and abandon their already selective buying of Eurobonds.

After Friday's US inflation figure, some bond markets went into a tumble that reminded traders of the worst days of 1987. In half an hour on Friday, the US long bond fell by more than two points, before rallying. Any new Eurobond dollar issues this week should see coupons reach new highs, around 11½ per cent at the short end and 11 per cent at the long end.

In the UK on Friday, gilts were marked down by between about ⅜ and ¾ point across the board. However, players in the sterling-denominated sector of the Euromarkets were in reasonably good cheer. All the signs point to steady new issue activity this year, as well as improving secondary market turnover.

This year has already seen heavy volume of sterling-denominated bonds. The first six months of 1988 were very active, but 1989 is likely to surpass that, with well over £3bn worth issued so far. According to a recent report from Barings, of £3.27bn worth of sterling bonds issued by the end of February, some £2.85bn worth were Eurobonds, with the remainder comprising domestic debentures and unsecured loan stocks.

Last week's UK budget opened the Euro-sterling market, to create what one analyst called a level playing field. Two measures were particularly significant: the removal of Bank of England queuing restrictions on domestic and Bulldog issues means that Euro-sterling deals will have to compete more directly with these sectors; and the abolition of the restriction on issuers wanting to launch instruments of below five years' maturity not only permits short-dated Euro-sterling bonds, but also allows syndicate managers to consider deals with call or put options at any time during the life of the bonds.

In effect this will create synthetic short-dated bonds via long nominal maturities. This Budget move was welcomed by syndicate managers, who spent the next few days answering a stream of inquiries from interested borrowers.

Fortunately, perhaps, no issues were forthcoming. One syndicate manager described a "wave of pointless activity" and said wary sentiment towards the currency was broadly unchanged. Bond sales staff confirmed that declining interest in fixed-income instruments has translated into fewer trade inquiries.

Demand for sterling paper was said to be thin, and any rush of issues would severely stretch the sector. In particular, West German and Swiss investors, who were behind much of the buying early this year, reached their cash limits long ago. Their asset allocations and their caution over the outlook for sterling has dampened their enthusiasm.

Nevertheless, there is medium and long-term interest in Euro-sterling bonds, concentrated at opposite ends of the yield curve. At the short end, the inverted yield curve means that fat coupons can be aimed at retail investors.

At the long end, the UK Government's programme of buying in gilts has created a shortage of bonds which long-dated Euro-sterling issuers have been happy to meet. The Budget signalled that no new gilt issues can be expected this year and the buying-in of existing issues will continue.

Analysts at UBS Phillips & Drew estimate that, among all sterling bonds of 15 years or longer maturity, the non-gilt market is already almost as large as the gilt sector. By the end of March, there will be roughly £3bn in outstanding Euro-sterling issues. The equivalent figure for UK domestic corporate issues will be £4.5bn, and that for so-called Bulldog issues is £3bn. Outstanding gilts will be around £12.8bn.

Interestingly, since the Budget some investors are reported to have been switching out of the longer-maturity gilts into shorter-dated paper, leading some analysts to wonder whether the Government may be getting less keen on buying back long gilts, intending to move lower down the yield curve.

This would help the technical squeeze at the long end. Nevertheless, UBS Phillips & Drew projects a total gilts buy-in (that is, net of redemptions) for this financial year of £6bn, and it remains likely that some of this will be at the longer end of the maturity range.

Researchers point out that very different groups of investors buy Euro-sterling bonds and each has specific reasons for doing so.

European investors used to holding Euromarket instruments usually buy Euro-sterling bonds of less than 10 years' maturity. Their investment decision generally starts with a currency allocation, followed by an equity/bond allocation. The actual bond tends to be purchased according to the quality of the issuer's name rather than to the yield on the paper.

When UK investment funds buy similar paper, two- or three-year bonds for example, their approach is almost the opposite. They are not making a currency decision and can compare the paper to short-dated gilts and money-market instruments on a yield basis.

Further down the yield curve, UK pension funds and insurance companies with long-term sterling liabilities have been the main buyers of long-dated bonds, which are used to match cash-flow requirements for pensions and life insurance policies.

One consequence for the market is that many long-dated Euro-sterling issues tend to be placed by lead managers straight into UK accounts where the bonds are locked away and never traded. The long-term future of the market will depend partly on the development of liquidity in this area.

Mr William Dunn of Société Générale Strauss Turnbull argues that, although the Euro-sterling market is moving in the right direction, many domestic investors have been slow to wake up to the opportunities.

"Most UK investment managers tend to favour long bonds, but if they moved into shorter-dated paper, they would often discover tremendous value."

Andrew Freeman

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Honda Motor Co.‡♦	500	1993	4	4⅛	100	Nomura Int.	4.125
Asahi Glass Co.‡♦	400	1993	4	4⅛	100	Yamaichi Int. (Eur)	4.125
Asahi Glass Co.‡♦	200	1993	4	4⅛	100	Singapore Nomura	4.125
Nachi-Fujikoshi Corp.‡♦	150	1993	4	4¼	100	Yamaichi Int. (Eur)	4.250
Nippon Thompson Co.‡♦	100	1993	4	4⅜	100	NKK Europe	4.375
Settsu Corp.‡♦	200	1994	5	5	100	Daiwa Europe	5.000
Sekisui Chemical Co.‡♦	300	1993	4	4⅛	100	Nikko Secs. (Europe)	4.125
Kansai Electric Power♦	350	1996	7	10	100⅞	Nomura Int.	9.821
Bergen Bank(e)♦	100	1999	10	10½	102	Drexel Burnham L'bert	10.172
Ohbayashi Corp.‡	200	1993	4	(4⅝)	100	Nomura Int.	★
Sumitomo Metal Int.♦	100	1992	3	10⅜	101.20	Daiwa Europe	9.894
Sparekassen SDS♦	100	1999	10	10⅝	102	Drexel Burnham L'bert	10.295
Teijin Ltd.‡	300	1993	4	(4½)	100	Daiwa Europe	★
Du Pont♦	250	1992	3	10⅛	101.225	CSFB	9.636
Daimler-Benz Int.♦	100	1999	10	10	102¼	Deutsche Bk Cap.Mkts	9.640
Svenska Handelsbank♦	100	1990	1	10¾	100.85	Yamaichi Int. (Eur)	9.817
SNCF(j)♦	50	1990	1	14½	101¾	Bankers Trust Int.	12.531
GMBS Int. No. 1(k)♦	100	1992	3	10½	101¼	Bankers Trust Int.	9.993
Nat.Credit Card Tst(m)♦	130	1993	4	10.15	98$\frac{13}{16}$	Citicorp Inv. Bank	10.682
AUSTRALIAN DOLLARS							
Swedish Export Cr.(b)♦	50	1991	2	30	100	Merrill Lynch	30.000
Eurofima(f)♦	50	1990	1	20½	101¾	Bankers Trust Int.	18.428
IBM Australia Credit♦	75	1993	4	15⅝	102	Salomon Brothers	14.926
D-MARKS							
Bk For. Econ.Aff.USSR♦	750	1996	7	7	100¼	Deutsche Bank	6.954
EIB♦	600	1996	7	6⅝	101⅛	Deutsche Bank	6.420
World Bank♦	150	1997	8	6⅝	100¾	DG Bank	6.502
SWISS FRANCS							
Mitsubishi Oil(a)§★★♦	300	1994	-	0	100	Credit Suisse	-
Megal Finance★★♦	65	1993	-	5½	100⅝	Bqe Paribas (Suisse)	5.322
Megal Finance★★♦	65	1994	-	5⅝	101	Bqe Paribas (Suisse)	5.382
Nomura Secs.§	250	1994	-	(½)	100	UBS	★
Nomura Secs.§★★	250	1994	-	(½)	100	Nomura Bank (Switz)	★
World Bank♦	125	1999	-	5½	101	UBS	5.368
BP America★★♦	100	1996	-	5½	101	J.P. Morgan Secs.	5.325
STERLING							
Royal Insurance(h)★★♦	100	1990	1	11.81	100⅞	Kleinwort Benson	10.842
ECUs							
PKbanken♦	50	1991	2	9⅛	101⅛	Nomura Int.	8.490
Council of Europe(c)♦	40	1990	1	14	101¾	Morgan Stanley Int.	12.039
EIB(i)♦	150	1999	10	9	101⅞	Mitsubishi Fin.Int.	8.712
LIRE							
CIR Int. (Luxembourg)♦	100bn	1994	5	13	101½	Banco di Napoli	12.578
EIB(l)♦	150bn	1994	5	6¼	100	C.Fin.Ligure/Centrobk	6.750
GUILDERS							
Honda Motor Co.★★‡♦	400	1993	4	1	100	Amro Bank	1.000
Asahi Glass Co.★★‡♦	200	1993	4	1	100	Amro Bank	1.000
YEN							
C.Itoh Finance(Europe)♦	5bn	1993	4	7½	111	New Japan Secs.(Eur)	4.436
Christiania Bank (d)♦	2½bn	1993	4	7½	101⅝	Drexel Burnham L'bert	7.020
Nat.& Provincial B.S.♦	15bn	1994	5	6¾	101⅞	IBJ Int.	4.943
Skopbank(g)♦	5bn	1994	5	7½	101¾	Yamaichi Int.(Eur)	7.072
Banco di Napoli♦	5bn	1992	3	5⅛	101⅞	Sanwa Int.	4.444
Oest. Laenderbank♦	60bn	1999	10	5.35	102	Salomon Brothers	5.090
Nat. Bank of Hungary♦	35bn	1999	10	5.7	100.90	Daiwa Secs.	5.659

★Not yet priced. ★★Private placement. ‡With equity warrants. §Convertible. †Floating rate notes. ♦Final terms. a) Put yields 2.241%. b) Redemption linked to A$/Yen spot exchange rate. c) Borrower can redeem in Ecu or US$. d) Redemption linked to Nikkei stock index. Unlisted public issue. e) Unlisted. f) Redemption in A$ or US$. g) Redemption linked to Nikkei stock index. h) Coupon payable quarterly. i) With purchase fund. j) Borrower option to redeem in US$ or Ecu. k) Backed by New Zealand residential mortgages. l) Coupon 6¼% first six months. Refixed every six months. m) Part of $1bn package of credit card receivables backed deal. $130m offered outside US. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS

UK GILTS

M0 steps back into the spotlight

THE OUTLOOK for inflation and the way the Government operates its newly defined monetary policy have emerged as the key elements in the Budget for the gilts market.

The glosses the Chancellor provided to the press following Tuesday's Budget appear to lend weight to the view that he hopes the next move in UK interest rates is down although he fudged the timing.

The Budget Red Book elevated M0, the narrow measure of money supply which counts mostly cash in circulation, to the position of *primus inter pares* of indicators which the Treasury watches.

In determining interest rate policy, M0 is given "particular weight" in the assessment of monetary conditions. The exchange rate came second and broad money measures a dismal third, deserving only "attention," thereby dashing the hopes of some that the Treasury would mark the 10th anniversary of the medium term financial strategy (MTFS) with the reintroduction of a target for broad money.

The six month annualised measure of M0, known for some time to be a favourite indicator of Sir Terence Burns, chief economic adviser to the Treasury, made an appearance in the Red Book for the first time. The rapid slowing in this measure was used to illustrate the Treasury's view that a slowing in nominal demand was well under way, having responded to the interest rate rises since last summer.

Putting together this restatement of the importance of M0 and the Chancellor's post-Budget gloss two strands to what the Government hope will happen appear to be:

● That the authorities believe they have done enough to slow the pace of domestic expansion through interest rates and do not see another rise; and,

● That they are preparing markets for a cut in interest rates – the return to good behaviour of M0 being used to justify such a move – if sterling permits.

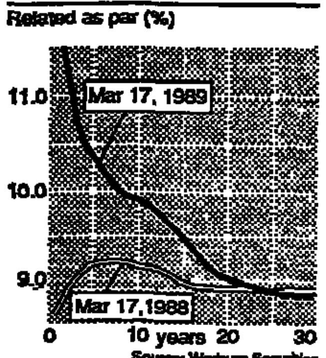
Timing hinges critically on the exchange rate which like the 1988 MTFS had a specific role in fighting inflation. As part of monetary policy's overriding aim of defeating inflation the Government will not be prepared "to accommodate increases in domestic costs by exchange rate depreciation."

The main risk to the scenario implied above is that inflation does not behave itself as well as the Chancellor forecast. The outlook for inflation deteriorated markedly between the time the Treasury did its Autumn Statement and Red Book inflation figures.

The mix of output and inflation has worsened from both directions: the MTFS envisages both lower growth and higher inflation. This is not an appealing outlook, even if City murmurs of "stagflation" may be a little overdone.

UK gilts yields

Related as par (%)



Source: Warburg Securities

That said, there is a broad, but by no means universal, consensus that inflation, as measured by the retail price index, will peak over the next month or so at around 8 per cent and, having plateaued at close to that level for a couple of months more, begin to move down for the rest of the year.

This view is based on cuts in bank base rates and hence mortgage interest rates which, by coming down at the same time they began to rise a year earlier, will have a beneficial effect on the RPI. Few, however, are forecasting much of a slowdown in the underlying rate of inflation – possibly a small uptick – which is the one the Chancellor has taught the markets to watch.

From the point of view of wage determination, and hence wage costs, the all-items RPI may be the most important. Wage pressures are growing and are likely to do so as the economy slows, simply as an arithmetical function of slowing output and productivity. A further pick-up in settlements, now up 1 percentage point to 7 per cent over the year to date, would be worrying.

The Treasury does not seem to allow for this and instead sees manufacturers' margins taking the brunt of the rise in costs. But revisions to last year's unit cost data suggest there was more cost-push inflation than the demand-pull inflationary picture that accepted wisdom first suggested.

The optimistic scenario in the Red Book also seems to assume a fairly benign international outlook. This view was underlined by the Chancellor when he said he thought the current round of interest rate rises in the leading economies was at or near its peak.

Friday's US producer price figures highlighted how volatile the US inflation picture is. There may well be more than one extra leg in the US interest rate spiral; if that should lead the dollar to break out of its DM1.70 to DM1.90 trading range then the Bundesbank could well follow suit.

Simon Holberton

US MONEY AND CREDIT

Questions that challenge the bears

NOW THAT accelerating inflation has finally been noticed by the conventional wisdom on Wall Street, could it be time to back away from longstanding bearish convictions and say that the bond market is getting oversold?

With the yield on the Treasury's long bond up to 9.3 per cent, it is certainly worth considering the case that the next major move in interest rates will be down rather than up.

One element of the case is very simple: 8¾ to 9¼ per cent have been the limits of a trading range which has prevailed for more than a year, since the aftermath of Black Monday. It has long been evident to many of the better Wall Street economists that underlying inflation was rising from 4 per cent to 6 per cent or so.

In fact it was this expectation that last caused the bond yield to rise above the 9¼ per cent mark, last August. Perhaps, then, after the current inflation hysteria has subsided, the markets will be ready for another roller-coaster ride around the 9 per cent mark. This figure is, after all, a reasonable long term bond yield when inflation is running at around 6 per cent.

The trouble with this argument is not, as might be supposed from reading some newspaper headlines, that inflation is rising far beyond even the 6 per cent mark. The producer price index (PPI) grew at a yearly rate of 12.6 per cent in January and February, but this tells us as much about the past as the future.

The fact that producers and wholesalers waited until the new year to implement their price increases may have improved the 1988 inflation figures and exaggerated the bond market's tendency to self-delusion, but analysts who followed the PPI data through the stages of production, from raw goods to finished prices, could see inflation coming.

From this point of view, the figures on Friday actually contained some hope. Finished goods' prices rose by 1 per cent in both February and January, price increases for intermediate products were 0.5 per cent, compared with 1 per cent the previous month, while crude goods actually fell by 0.1 per cent, after leaping by 3.9 per cent in January.

It seems possible, therefore, that monthly PPI inflation will soon settle down again on a plateau of around 0.5 per cent, or 6 per cent annually.

So for short-term speculators this might be a good time to put into practice the old traders' adage about buying on bad news.

In the longer term, however, faster inflation is not the only cloud on the bond market's horizon – there are at least two others which cast a darker shadow.

The first is that real bond yields in other countries are now higher than in America. Assuming US inflation stabilises at around 6 per cent, US bonds yielding even 9½ per cent do not seem overwhelmingly attractive compared with German bonds yielding 7 per cent against an underlying inflation rate of 2½ per cent, or even Japanese bonds yielding 5 per cent in an economy with virtually no price inflation.

Over the past two years such comparisons have been rendered irrelevant by currency movements that have failed to reflect inflation differentials. In principle this could continue if monetary authorities throughout the world remained committed to currency stability at the expense of balance of payment adjustment.

The longer the dollar is prevented from depreciating against the yen and D-Mark in line with the differentials of inflation and productivity growth, the bigger the devaluation will have to be in the end. The US trade deficit has stopped improving and will, on present trends, begin to rise again towards the end of this year. Meanwhile the Japanese and West German surpluses are growing and the volume of Japanese exports is expanding faster than those of the US.

More importantly, as US *inflation accelerates it should* become apparent, particularly to the West German authorities, that stabilising the D-Mark against the dollar will mean repeating the mistake their predecessors made in the late 1960s and early 1970s - importing a US-made inflation which will prove extremely costly to eradicate once it takes hold of the relatively rigid European labour market.

But even if the European and Japanese Governments honoured their international commitment to continue importing US inflation, there would be another, more persuasive, reason to expect a devaluation of the dollar. Eventually, Washington itself will want a lower dollar to reignite US growth.

The recent US production statistics suggest that the economy may finally be slowing – and while the slowdown has been most evident in domestic consumption, the compensating stimulus will be concentrated in the export sector when the time comes to boost demand.

But surely it is premature to talk of stimulus when the US authorities are trying to slow down the economy, rather than speed it up? This raises the second reason for long-term pessimism about the outlook for bonds.

No US policymaker has any mandate to cause a recession in the name of fighting inflation.

Indeed, the 2 per cent to 2½ per cent gross national product growth rate which used to be cited by the Fed as a speed limit for the economy, should be seen as something more akin to a lower bound.

Yet without a more dramatic economic slowdown, it is unlikely that inflation can even be stabilised, never mind reduced in the long term. As Mr Robert Parry, President of the Federal Reserve Bank of San Francisco and one of the few genuine anti-inflation hawks left in the Fed, said in an interview this week:

"I am not convinced that a slowing in the economy will lead to a slowing of inflation. Anyone who believes that the worst is behind us on inflation or that a couple of quarters of 2 to 2½ per cent growth will lead to a reduction in inflation is misreading the case."

Political realities suggest that as soon as the economy decelerates to around this rate and inflation stabilises, there will be intense pressures on the Fed to start relaxing policy - not least from Wall Street itself, since most investors are still wedded to the idea that a bull market in bonds and stocks, precipitated by falling interest rates, is just around the corner.

In the short run, of course, any such relaxation would unleash a powerful rally in bonds - though given the likely fall in the dollar, it might be better for foreign bonds than for the US variety. In the long term, however, the next decline in interest rates will probably ensure that 5 to 6 per cent becomes not a ceiling, but a floor, for US inflation in the years ahead.

Anatole Kaletsky

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	9.62	9.75	9.31	9.89	6.27
Three-month Treasury bills	9.13	9.05	8.76	9.13	5.60
Six-month Treasury bills	9.42	9.30	9.02	9.42	5.74
Three-month prime CDs	10.35	10.12	9.02	10.35	6.77
30-day Commercial Paper	9.90	9.75	9.30	9.90	6.65
90-day Commercial Paper	10.00	9.80	9.45	10.00	6.65

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	98⅜	-¼	9.54	9.39	9.25
20-year Treasury	99¼	-⅜	9.40	9.26	9.15
30-year Treasury	95⅛	-1⅛	9.28	9.14	9.04

Money supply: In the week ended March 6, M1 grew by $2.7bn to $791.5bn

NRI TOKYO BOND INDEX

December 1983 = 100	16/3/89	Average yield (%)†	Last week	12 wks ago	26 wks ago
	PERFORMANCE INDEX				
Overall	147.30	4.96	147.53	148.40	143.33
Government Bonds	147.22	4.80	147.54	149.65	143.46
Municipal Bonds	149.48	5.15	149.81	150.19	144.99
Govt.-guaranteed Bonds	150.60	5.19	150.94	151.10	146.53
Bank Debentures	141.54	4.81	141.53	141.36	137.66
Corporate Bonds	148.69	5.48	148.83	147.62	144.27
Yen-denom. Foreign Bonds	153.43	6.10	153.23	150.70	147.64
Government 10-year†	5.01		5.09	4.79	5.32

† Estimated par yield

Source: Nomura Research Institute

FT/AIBD INTERNATIONAL BOND SERVICE

[illegible]

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on MARCH 17

Court victory for Polaroid boosts its fight against bid

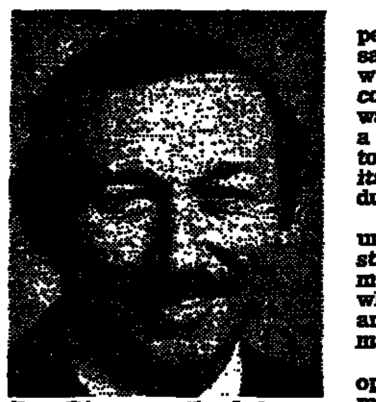
By Roderick Oram in New York

POLAROID has won a major court victory that significantly increases its chances of defeating a takeover offer from Shamrock Holdings, the investment vehicle of Mr Roy Disney, the California businessman.

The Delaware Chancery Court upheld plans by the photography group to buy back some 22 per cent of its shares at $50 a share for a total of $800m, and to sell $300m of additional stock to a friendly investment fund.

Ms Carolyn Berger, vice-chancellor of the court, also rejected Shamrock's request that she review her earlier approval of Polaroid's plans to increase its employee stock ownership plan (Esop).

Both decisions increase Polaroid's voting power in a proxy fight at its annual meeting on May 9. Mr Disney heads a group of 14 dissident nominees who, if elected, want to sell the company to Shamrock at $45 a share, or $3.1bn.



Roy Disney: setback in bid for Polaroid

Shamrock, which owns 6.9 per cent of Polaroid's stock, said late on Friday that it would appeal against the court's decision to the Delaware Supreme Court and seek a temporary injunction today to prevent Polaroid completing its share buy-back, which is due to expire today.

Judge Berger said: "I remain unpersuaded that the employee stockholders constitute a monolithic block of voters who, for one reason or another, are constrained to vote for management.

"Their apparently strong opposition to Shamrock is more likely attributable to distrust of its plans and displeasure with the price offered than to any underlying devotion to management. In short, the Esop votes do not, in my view, taint the election."

Recovery at Bekaert as profits hit record

By William Dawkins in Brussels

BEKAERT, THE world's largest steel wire and cord maker, has unveiled a 26 per cent recovery in 1988 net profits, more than making up for the previous year's drop.

The Belgian company's profits were a record BFr4bn ($102m) in the 12 months to December, as against BFr3.2bn the previous year, or BFr2.5bn after a one-off restructuring charge in 1987.

It comes thanks to an "unusually favourable environment," in which demand for all the group's products was strong, so that capacity utilisation was very high, said Bekaert.

Turnover rose by 9.6 per cent, from BFr41.6bn to BFr45.6bn. The steeper rise in earnings reflects the speed at which an increase in output benefits a business with a high proportion of fixed costs.

The group sold 1.14m tonnes of wire and wire products worldwide, up from 1.07m tonnes in the previous year, while steel cord output advanced from 311,000 tonnes to 353,000 tonnes over the same period.

Capital expenditure reached BFr10.7bn, a significant increase from the BFr5.9m spent in 1987.

The parent company, NV Bekaert, produced a swing from a 1987 net loss of BFr691m – after that year's restructuring costs – to a profit of BFr2bn, on turnover up from BFr26.4bn to BFr29.6bn.

Eastern Air puts jets up for sale

By Anatole Kaletsky in New York

EASTERN AIR LINES, the seventh largest US air carrier presently strikebound, has put most of its fleet of 230 aircraft up for sale in a manoeuvre designed to increase pressure on its pilots' union and to generate sufficient cash to see it through the bankruptcy proceedings that it began two weeks ago.

A spokesman said on Friday night that Eastern had sent telexes to other airlines around the world, as well as to aircraft brokers, inviting offers for about 170 Boeing 757s and 727s and McDonnell Douglas DC9s.

There was no indication, however, that Eastern intended to sell all or even most of these aircraft immediately, and company officials denied that the proposal to dispose of aircraft was the first step towards the liquidation of Eastern Air.

Eastern spokesman Mr James Ashlock said: "We have said all along that we were going to have to run a smaller, leaner airline. The plan is to see if we can sell some of these aircraft to improve our cash flow." He added that Eastern was not offering to sell any of the more valuable wide-body aircraft in its fleet. These include about 60 Airbus A300s, Lockheed L1011s and Douglas DC10s.

Mr Frank Lorenzo, the chairman of Eastern's holding company Texas Air, acknowledged publicly for the first time that he might resolve the Eastern bankruptcy by selling what remained of the airline, instead of trying to revive it as a slimmed-down business within Texas Air. "It is possible that the most sensible way for Eastern to proceed would be with some different types of ownership," he said in a television interview on Friday night.

Mr Lorenzo might wish to sell individual aircraft or sell the company in parts or as a whole. However, he would not have a free hand to make the decision. Any sales of assets would have to be approved by the Federal Bankruptcy Court in New York and could be challenged by Eastern creditors, including the unions, which have a financial interest in the airline both through their labour contracts and through their claims on the pension plan.

In addition, potential buyers might be deterred by an unprecedented blacking agreement announced last week among the individual branches of the Air Line Pilots Association.

The association said its members in other US airlines would boycott any aircraft or routes acquired from Eastern unless the acquiring airlines hired striking Eastern pilots along with the assets they bought. Although there is widespread scepticism about its ability to make this threat stick, it could cause other US airlines to think twice about making.

Manville to expand European business

By Maggie Urry

MANVILLE, the US glassfibre, forest products and speciality products group, is planning to expand its European operations, particularly through the development of a packaging arm. It has substantial funds to invest, and could make acquisitions or set up joint ventures.

Manville makes paper-based packaging products in the US, notably corrugated boxes designed to carry cans, such as 12 to 24 can packs of take-home beer, and cartons for the food, pharmaceutical, and soap powder industries. It also manufactures packaging machinery, such as a machine to put cans into the cardboard packs.

The company emerged from Chapter 11 protection last November when a method was devised for dealing with claims arising from the group's former asbestos business. The group had sought the sanctuary of Chapter 11 in August 1982. Chapter 11 is part of the bankruptcy law which gives protection from creditors while the company works to make itself viable again.

Half of Manville's shares are owned by two trusts which handle claims. They have convertible securities which would take their stake to 80 per cent. Manville is under pressure to create shareholder value for the trusts to meet claims.

The company has $1bn available for investment and plans to spend much of that in Europe.

Mr Tom Stephens, Manville's president and chief executive officer, is in Europe this week discussing an $80m multi-currency loan being organised by bank holding company J.P. Morgan.

Manville has nine plants in Europe, involved in its glass-fibre and speciality products businesses. Mr Stephens plans to expand these interests and to build a packaging business. The latter plans to make beer can packs in Europe as it does in the US. Cartons are also a target market.

The primary aim is to build a business with critical mass, which Mr Stephens says means sales in Europe of $100m. He believes that only large, state-of-the-art, low-cost production plants are worth buying and that it can reach this critical size faster through partnerships or acquisitions.

Manville already supplies the raw material for boxes to independent European manufacturers, largely from its pulp and paper operations in Brazil.

The advent of the single market in 1992 is one reason for moving into production in Europe. The leading brewers are likely to buy packaging on a Europe-wide basis.

Whampoa resources side leaps

By John Elliott in Hong Kong

CAVENDISH International Holdings, the investment and natural resources arm of Hutchison Whampoa, controlled by Mr Li Ka-shing, unveiled a 43.1 per cent rise in consolidated net profits after tax amounting to HK$948.9m (US$121.7m) for 1988.

The company was formed in 1987 to split Hong Kong Electric from its non-electricity holdings. Mr Simon Murray, the chairman, said Cavendish had benefited from Hong Kong's buoyant property sector and record number of incoming tourists, and from an upsurge in the colony's entrepot re-export trade with China.

Turnover increased from HK$593.3m in 1987 to HK$752.0m last year. A final dividend of 7 cents is being recommended, making a total of 20 cents for the year.

The company's interests include a 34.8 per cent stake in Hong Kong Electric, which last week reported a 19 per cent increase in profits. It has half Hutchison's 43 per cent stake in Husky Oil of Canada whose profits were hit by falling international oil prices.

It also owns Hong Kong's Hilton Hotel where profits increased by 21 per cent. Mr Murray said that the hotel's prospects were satisfactory, even though competition would increase soon as new hotels opened in the colony.

Cavendish's other interests include a one-fifth share of the 50 per cent stake held by Mr Li Ka-shing's companies in Hutchison CableVision, which is a leading bidder for the colony's planned cable television contract.

Henderson Land advances by 126%

By John Elliott

HENDERSON Land Development, a leading residential property group controlled by Mr Lee Shau-kee, one of Hong Kong's wealthiest entrepreneurs, has announced a 126 per cent increase in net profits after tax to HK$735.57m (US$94.3m) for the half year to December 31.

The large increase has been caused by the share of profits of associated companies soaring from HK$56.08m in the six months to December 1987 to HK$572.50m following extensive restructuring.

Operating profit rose by 7.7 per cent to HK$363.20m and turnover from HK$690.9m to HK$772.12m. An interim of 11 cents was declared.

Henderson Investment, which is 65.1 per cent owned by Henderson Land and was called Wing Tai until a group restructuring in August 1988, announced interim net profits before exceptional items of HK$164.2m, up by 73 per cent above the same period in 1987.

Net profits, including exceptional items from disposal of government land exchange entitlements and from sales in the restructuring, rose from the previous period's HK$95.17m to HK$1.17bn.

The interim dividend is 4.5 cents. The company has a 26.4 per cent stake in Hong Kong and China Gas.

Hudson's Bay ahead

HUDSON'S BAY, Canada's largest merchandiser, had a strong fourth quarter in most of its store operations, bringing net profit of C$49.2m (US$41.1m), or 73 cents a share, for the full year to January 31 1989, writes Robert Gibbens in Montreal. This compares with a loss of C$78.5m for the previous year.

Revenues were little changed at C$4.6bn. The Bay, controlled by the Thompson family, also reduced debt by C$122m to C$1.9bn.

Sampo-Finanssilaitos link

By Olli Virtanen in Helsinki

SAMPO, THE Finnish insurance company which has been a target of speculation recently, plans to increase its holding in Finanssilaitos, the holding company that bought 25 per cent of Sampo stock on Wednesday, from 10 per cent to up to 20 per cent.

A larger holding is aimed at strengthening the ties between Sampo and the insurance companies Elake-Varma, Yrittajien Fennia and Teollisuusvakuutus, which are regarded as part of the Union Bank of Finland "family." Finanssilaitos is controlled by Union Bank of Finland and its associates. The holding company is Sampo's single largest shareholder with 25 per cent of the equity.

Union Bank of Finland has a 7 per cent stake in Sampo while the Sampo Group's total holding in the insurance company amounts to 16 per cent. The linkage between Sampo and the three insurance companies will effectively end speculation over Sampo, as almost 50 per cent of the company's stock is now placed in friendly hands.

Ascom wins Rockaway

By William Dullforce in Geneva

ASCOM, THE Swiss telecommunications group, has clinched victory in its $110m bid for Rockaway, a US manufacturer and distributor of mail handling equipment, after Rockaway shareholders accepted an improved $16 a share offer. This was 50 cents higher than Ascom's first bid.

Last year Rockaway's turnover was $59m after selling a small food services company during the year, and net earnings were about the same as the $5.8m achieved in 1987.

Ascom, formed in 1987 from the merger of Hasler and Autophon, is one of the five biggest manufacturers of telephone sets and radio systems in Europe. It also produces [illegible] automation systems and hearing aids.

Group sales totalled SFr2.4bn ($1.5bn) last year, and net earnings in 1987 were SFr41m.

Rockaway has been distributing Ascom's franking machines and other mail-handling equipment through subsidiaries in Canada, the UK and Japan as well as in the US.

UK COMPANY NEWS

Slowdown in house sales takes toll on Bellwinch

By Andrew Taylor, Construction Correspondent

BELLWINCH has become the first housebuilder to display the scars from a sharp slowdown in house sales last autumn in southern England.

Pre-tax profits in the six months to the end of December tumbled by almost a half from £3.51m to £1.82m despite an increase in turnover from £17.16m to £20.92m. The interim dividend was maintained at 1.1p.

The decline in group profits reflected a £1.2m surplus from the sale of a former docklands warehouse which was included in the first half figures for the previous year. The latest figures showed a £200,000 loss from the cost of a public inquiry into a site at Petersfield, Hampshire.

Higher interest costs further reduced first half profits by £781,000 (£16,000).

Bellwinch builds only in southern England unlike many of the housebuilders which recently have announced big increases in profits from housebuilding. Housebuilding profits from Bellwinch during the six months managed to rise by 18 per cent to £2.76m despite a fall in the number of houses sold from 235 to 194.

Mr Robin King, chief executive said: "Prior to the market turning sour we had hoped to produce sufficient gains from housebuilding to offset the affect of the surplus made on the sale of docklands property."

He said cancellations by purchasers during the first half had been running at the rate of one in every two reservations.

The market had improved in the first two months of the second half with reservations higher than during the comparable period. The number of cancellations had declined but still remained higher than last year.

The company had reduced its building programme and had introduced financial incentives to encourage purchasers. Mr King warned that the group was unlikely to match last year's record profits while sales remained difficult to complete.

Budgens venture to accelerate openings

By Maggie Urry

BUDGENS, the supermarket retailer formerly Barker and Dobson, and Southend Property Holdings, a property group, is setting up a joint venture company to invest in and develop retail properties.

It will lease shops to Budgens. The move follows other similar joint ventures between food retailers and property companies.

Budgens has 142 supermarkets at present covering half the UK market. It is committed to sites in high streets which are avoided by the larger food retailing groups looking for bigger stores, often located on the edge of, or outside, town.

Mr Peter Lane, property director, says the group has the management capacity to double the number of stores. However, doing so rapidly would prove impossible to finance.

With the help of the joint venture company, being called Southend Budgens Properties, Budgens would be able to accelerate its opening from the current 10-12 shops a year. This can be done off Budgens balance sheet. The property company will have the advantage of a guaranteed tenant when it takes on a shop or group of shops.

The present intention is not to put any of Budgens' existing stores into the joint venture, although this could change. The joint venture is expected to make development profits, and could eventually become large enough to be floated on the stock market.

UEI buys 21% stake in Unitel Video for $6m

By Clare Pearson

UEI, the high technology electronics and engineering group, has bought for $6m (£3.5m) in cash a 21 per cent stake in Unitel Video, a US provider of post production services, television and video facilities and services.

UEI says Unitel Video is a useful extension to its existing sound and vision subsidiary. This comprises companies involved in digital image processing, digital audio systems, electronics for cable TV systems, and computer-controlled lighting systems.

It has also been granted an option to acquire a further 27 per cent at $14 per share, the price it is paying for its initial stake.

Unitel's recent performance has been hit by the strike at The Writers' Guild of America which occurred between March and August last year. In the year to end-August 1988, Unitel made pre-tax profits of $2.2m ($2.8m) on turnover of $33.6m ($26.7m).

Besides sound and vision, UEI has a wide range of interests in the fields of text and graphics, science and medicine, and advanced engineering. It made pre-tax profits of £14m in the half-year to end-July 1988.

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition:

City of Oxford Inv. Zero Div.Pf. (Section:Investment Trusts)
Compass Group (Leisure)
N'wide Bldg.Soc.12 2/3 pc.29.1.90 (Loans)
Ross Catherall (Engineering)
Smurfit (J.) 9 3/4 pc.Cv.Un.Ln.(Paper,Printing).

Rockwood buys in Canada

By John Thornhill

ROCKWOOD Holdings, the acquisitive USM-quoted distribution group, is expanding in Canada through the purchase of two companies for C$ 6.25m (£3m) plus the repayment of loans totalling C$ 1.15m.

Meadows Canada and Able Customs Brokers, will be merged to form Rockwood International Freight Inc.

Meadows warrants annualised pre-tax profits of C$ 240,000 to March 31 1989. Its net assets amount to C$ 375,000. Able warrants C$ 100,000 profits and has net assets of C$ 100,000.

Until December 1986, Meadows was part of the Walford Meadows Group, which was bought by Rockwood last June.

Estates & General ahead

PRE-TAX profit of Estates & General Investments, property developer and investor, rose by some 12.5 per cent in 1988, from £2.71m to £3.06m.

The result included £300,000 (£700,000) exceptional profit. Without that, the percentage increase was nearly 37. Interest charges were substantially higher at £3.87m (£3.15m).

Mr David Bloomfield, managing director, said the net worth had more than doubled to £88m (£41m), following the £20m preference share issue, the £3.25m unquoted convertible preference issue, and substantial revaluation surplus. Fully diluted net asset value was up 38 per cent to 267p per share.

Gross investment rental income rose 25 per cent to £4.6m.

Earnings were 9.9p (8.5p) excluding exceptionals, and the final dividend is 2.3p for a total of 3.4p (3p).

Thomas Walker

Thomas Walker, maker of metal smallwares for the clothing industry, raised pre-tax profits from £137,000 to £150,000 in the six months to December 31, on turnover of £1.7m (£1.5m). Earnings per share came to 1.6074p (1.2736p), and the interim dividend is up from 0.178p to 0.26p.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Budgens, Halstead (James), Lucas Inds, Salvage Group, Trafford Park Estates.
Finals- Abbeycrest, Andaman Resources, Aran Energy, Booker, Bredero Properties, Brent Chemicals Intl., Cairn Energy, Cambridge Electronic Inds., Clayform Properties, Colorgraphic, Delgatin, EBC, Edinburgh Oil & Gas, European Home Prods., Evans Halshaw, Hambro Countrywide, IMI, Iceland Frozen Foods, Irish Distillers, Lilleshall, Lilley (F.J.C.), Mallinson, Metalrax, Pacific Sales, Rugby, Scott Robertson, Trinity, Oy Wartsila AB, Wilson Bowden.

FUTURE DATES

Interims-

China & East Inv. Co.	Apr 4
Scot. Metropolitan Prop.	Apr 27
Finals-	
Britannia Group	Apr 6
Brooks Service Group	Mar 29
Burmah Oil	Mar 30
Food Industries	Mar 21
Gardner (D.C.)	Mar 29
Johnston Group	Apr 4
Lopex	Mar 28
Martin (Albert) Hldgs.	Apr 11
Rockfort Group	Apr 3
Secure Trust Group	Mar 22
Spirax-Sarco Engineering	Mar 29
Sumit	Mar 21
Triton	Mar 22

UK COMPANY NEWS

NFC sets £87m target as 'best view' for year

By John Thornhill

NFC, the freight and distribution group which was floated on the Stock Exchange last month, has delivered on its promise to announce a profit estimate for the current year.

Sir Peter Thompson, chairman, told about 2,000 shareholders at NFC's annual meeting in Brighton on Saturday that the board's "best view" of pre-tax profits for the year to September 30 1989 was £87m.

But the board warned that there were still more than six months of the year to run and "that many factors and circumstances, internal and external, do affect results."

NFC also announced its results for the first 12 weeks of the year to December 24. Pre-tax profits grew by 54.6 per cent to £18.4m, compared with the £11.9m achieved in the 12 weeks to December 26 1987.

Turnover increased to £331.9m (£228.8m). Allied Van Lines, not acquired until the second quarter last year, contributed £2m to operating profit and £71m to turnover. Earnings per share rose to 4.1p (2.8p).

Sir Peter Thompson: usual type of AGM was pretty unusual by other standards

Speaking yesterday, Sir Peter said: "It was our usual type of AGM, which is pretty unusual by any other standards."

He said NFC had provided a "best view" estimate before its flotation and would continue to do so. "The reason why we have done this for the last three years is that we have always believed that any employees should be making their investment decisions against the best information the board has, and that seems to me not to be a principle which should be confined to companies which are not quoted."

Sir Peter said it was common practice for a company to issue profits forecasts when it was subject to a takeover bid, and "I cannot for the life of me think why that is not done when the company is not under attack."

The board estimated that turnover would rise to £1.54bn, against last year's £1.26bn. Earnings per 5p share were forecast to grow by 25.4 per cent to 17.8p (14.2p).

An ingenious way out of the trap

Nikki Tait looks into the share interest of the Kerman family in the BS Group

ISADORE Kerman, solicitor, property man and ex-chairman of the Tote, may be in his 80s, but he shows no sign of losing his business touch. By a highly unusual route, Mr Kerman and his family appear to have devised a means of keeping a large measure of potential control over a listed company, while simultaneously satisfying the rules of the Takeover Panel.

The company in question is Bristol Stadium - now known as BS Group. Like GRA, another in a clutch of quoted companies controlled by the Kerman family until its reverse takeover of Wembley last year, BS combines the roles of stadium proprietor and property developer.

It runs greyhound racing meetings four times a week at *its Eastville stadium - which, it* claims, makes it the busiest greyhound race track in the country. Its BS Properties subsidiary has been involved in commercial and residential development in the Bristol area.

The problem of control goes back some way. The Kerman interests are split between Mr Kerman, his son Nicholas, a company called K Insurances, and the quoted Scotts Restaurant group *where the Kermans also have a controlling interest.*

According to documents sent by BS to its shareholders, their combined stake in BS topped 30 per cent back in July 1984 - the level at which the Takeover Code would normally require a full offer to be made.

But the problem appears to have been compounded by the fact that aggregate share purchases by the concert party exceeded 2 per cent in a 12-month period, sometime between January 1986 and February 1988. This represented a further breach of Rule 9 - and *further grounds for requiring a full offer.*

According to BS, the problems came to light when it decided to buy some further interests from the Kermans last year. These comprised the *51 per cent of Data-Tote which* BS did not own and which was held by Scotts Restaurant, plus some woodland belonging to the Kerman family trust.

Discussions with the Stock Exchange duly ensued, says BS, and it became clear that any further conventional paper consideration was not possible. Instead, a rather ingenious solution was put forward.

Shareholders were asked to approve the conversion of *61,728 unissued voting ordinary shares into a new class of non-voting* stock units. A key feature to these securities, however, was their right to convert back into voting shares at any time and at the holder's option. In the meantime, other rights attached to these shares would be virtually identical to those of the voting shares.

The two deals were duly satisfied by the issue to vendors of non-voting stock units. As a result, the 61,728 non-voting shares ended up in the hands of the Kerman concert party.

That still left the Rule 9 problem. In normal *circumstances, any unintentional* breach of Rule 9 would result in an obligation to sell down the holding below the 30 per cent level. But again, this alternative solution was extended; the Kerman interests *suggested that they switch a* requisite number of shares into non-voting stock units instead.

PANEL approval was duly won and a scheme put to shareholders earlier this month. Under it, the Kerman interests would convert 475,920 voting stock units (out of a total holding of 1.14m) into non-voting stock units. The net result would be to reduce the Kermans' voting control from 33 per cent to 23 per cent, but *to give them 100 per cent of the* non-voting securities.

In agreeing to this alternative solution, the Panel accepted that the Rule 9 breach had been inadvertent. It also noted that a non-voting class already existed - albeit for not very long - and that the deal would require the approval of other shareholders. The Kerman concert party itself would be barred from voting on the scheme.

In fact, however, there are relatively few external shareholders in this tightly-held group. Aside from the Kermans, members of the Bristol-based Stevens family hold another major chunk of the equity - just under 40 per cent. Other shareholders number less than 300.

Nevertheless, the potential which the move - approved earlier this month - could offer the Kerman family has not been lost on all of these investors. The point is made that there is nothing to prohibit the Kerman interests from increasing their holding of voting shares back to the 29.9 per cent limit. If they were then to convert their non-voting shares - obviously triggering a bid - they would have a holding of 40 per cent.

Last week, Mr Clarke Osborne, managing director of BS Group, was not ruling out this possibility - though he said that he did not believe the Kermans planned any purchases at present. But, in selling down to 23 per cent of the voting shares, he acknowledged that they might have created "some leeway in the future."

MEANWHILE, the Stock Exchange - which once used to thunder against dual share structures - is only tangentially involved. It says the conversion of unissued shares into another class of equity is a matter which it would simply wish to know about and comment on. Once, however, an application to list any shares was made (if, for example, the non-voting units were converted back) its approval would be required. The document sent to shareholders says only that BS will use its "best endeavours" to have such shares listed in the event that any application to convert is made.

So it was left to Mr Osborne to sum up the situation rather neatly last week. The Kermans, he said, "don't want to sell and don't want to bid." They seem to have achieved just that; others can only look on in envy.

CST Emerging Asia Tst coming to main market

By Clare Pearson

CST Emerging Asia Trust, a new investment trust created to invest in developing countries in South-East Asia, is coming to the main market via a placing worth up to £10m.

Investment managers of the company are Tyndall Investment Management (Asia), part of the international financial services company Tyndall Holdings, and Dao Heng Fund Management, both based in Hong Kong. CST, a newly formed Bermuda-incorporated company beneficially owned by Chariton Seal Schaverien, the stockbroker, and Tyndall, is investment adviser.

The initial strategy of the trust is to invest about one third of the assets in Hong Kong, one third in Malaysia and Singapore, and one third in the other markets of South Korea, Taiwan, Thailand, and the Philippines. Japan, Australia, and New Zealand will be specifically excluded.

Chariton Seal has conditionally placed, in units of five ordinary shares, at 50p each, and one warrant, 6m shares and 1.2m warrants. But no shares will be allotted unless applications are received for a further 4m shares and 800,000 warrants by April 4.

Splash holders again urged to accept offer from Astra

By John Thornhill

Mr Theo Paphitis, chairman and chief executive of Astra Trust, has again written to the shareholders of Splash Products, the beleaguered T-shirt printer and character merchandiser, urging them to *accept the offer from Astra.*

The bidder says it has already received acceptances for just under 48 per cent of the Splash equity, and has bought an additional 2 per cent in the market.

The first closing date for Astra's offer is March 28.

A & M incurs £384,000 loss

By Philip Coggan

A & M Group, the furniture hire and film set provider, slumped to a £384,000 pre-tax loss in the six months to July 31, 1988. Because of its accumulated deficit, the company can*not pay a dividend.*

The company made a loss of £1.9m in the year to January 31, 1988 and raised £2.8m via a convertible loan stock issue as part of a rescue operation. However, the group's transport subsidiary has faced considerable costs in repairing and improving its vehicle fleet. The transport division made a substantial loss in the first half of 1988 and has continued to lose money since.

Although A & M has sold its 51 per cent stake in video *group Harlequin and plans to* sell production services group BBRK, the company anticipates that it has made a further substantial loss since July 31. Net tangible assets are now less than £1m.

Recently, City and Westminster Financial, the financial services group headed by Mr Andrew Greystoke, revealed the terms of a reverse takeover of A & M. If the deal, which requires approval by A & M shareholders, goes through, Mr Greystoke will become chair*man and CWF will own 50* per cent of the enlarged group.

The reverse takeover of A & M is likely to be accompanied by a capital-raising package designed to bring in working capital for the group. *Shares in A & M are currently suspended* at 7p.

Klearfold rises to $1.86m

KLEARFOLD, the US plastic packaging maker quoted on the main London market, reports an increase from $1.65m to $1.86m in pre-tax profit for 1988, despite substantially higher interest charges.

Turnover in the year rose 10.5 per cent to $25.24m. The directors said increased marketing effort and strengthened sales force had given rise to an encouraging outlook for 1989. And the order book added to that optimism.

Earnings in 1988 dipped to 11.9 cents (12 cents) after a higher tax charge. The final dividend is 3.9 cents to raise the total to 5.7 cents (5.2 cents).

In pursuance of its policy to broaden the product range and expand into other areas of visual packaging, Klearfold has conditionally agreed to purchase 51 per cent of PTF Industries, a private Baltimore-based company engaged in making thermoformed packaging products and contract packaging.

The consideration is $200,000 cash, and Klearfold will contribute $800,000 to the capital reserves. It will have the option to acquire the balance of shares for cash at any time within ten years. In years six through to ten of the period the minority holders have the right, if Klearfold does not exercise the option, to buy back the 51 per cent.

De La Rue in US holograms development

De La Rue, the security printing company which last month warned of a sharp fall in annual profits, is to co-operate with a US company in the technical development of holograms.

Ambiehurst, a De La Rue subsidiary, has concluded a technology licence agreement with American Bank Note Holographics for the sharing of technical resources and the development of holograms in security, brand protection, packaging and promotional applications.

Each company will take a 20 per cent shareholding in the other, at a net cost to De La Rue of £5.7m.

Arley tops £1m for year

THE EXPANDED Arley Holdings turned in profits of £1.07m for 1988, after returning to the black at the halfway stage. It is paying the promised *2.2p final dividend for a total of* 3.3p.

Profit of this maker and *importer of photographic* equipment was earned on turnover of £13.78m, against a loss of £402,000 on sales of £7.64m. Earnings were 9.9p (loss 16.4p.)

An encouraging start had been made to the current year and the restructuring of production facilities had started, the directors reported.

The new Photax audio visual division had been launched and they were optimistic about *its impact on profitability.*

Last August the company continued its expansion with the acquisition of Cine Screens and Nasa Marine for £9.44m in cash and shares. A rights issue helped towards the financing. Further acquisitions were being examined.

Mallett expands

Mallett, the antique furniture and art dealer, increased its pre-tax profit from £2.35m to £2.7m in 1988, after allowing for a £107,000 exceptional charge in 1987. Turnover in 1988 rose 16 per cent to £10.15m. Earnings came to 12.41p (11.68p) and the dividend is raised 10 per cent to 4.4p, *with a final of 3p.*

Edinburgh Fund falls to £4.1m

Profits at Edinburgh Fund Managers fell in the year ended January 31 1989, as forecast, principally because of a decline in unit trust trading profits.

As confirmation of confidence in the future, however, *the dividend is raised 1p to* 10.5p, the final being 6.5p.

Pre-tax profit came to £4.07m, against the previous £5.57m. Fund management fees were £4.83m (£4.56m) and unit trusts £1.34m (£2.79m). Interest and dividend income rose to £1.38m (£975,000) but there was no realised investment gain this time (£575,000). Earnings were 16.9p (24.5p).

Fund management accounted for 88 per cent of turnover in the second half.

COMPANY NEWS IN BRIEF

ASSAM-DOOARS Holdings is paying dividend of 11p for 1988 (10p). *Pre-tax profit* £553,000 (£657,000) and earnings 43.39p (48.09p).

CORPORATE ESTATES Properties is paying £2.8m for the 35 per cent profit share held by American Express Bank in a property deal *dating* from last April.

GREYCOAT is placing 50m cumulative redeemable preference shares of £1, redeemable in 2014. The issue will have a coupon of 9.5% and be issued at 101.257p.

GSM's offer to acquire Tyzack received 76.9 per cent acceptances *and* has been declared unconditional and will remain open.

HEYWOOD WILLIAMS has acquired The Great Yarmouth Glass Company and Ipswich Glass for £1.39m.

HICKING Harrison Lynx Group is to acquire Data Memories for £1.3m satisfied by the allotment of 6.5m ordinary valued at 20p per share.

LONDON and Manchester Group is buying Whitehall Estates, estate agents of Camberwell, for £290,000 in shares.

LONDON AND St Lawrence Investment Company showed earnings of 1.449p for the six months ended February 28 1989 (1.208p) from gross revenue of £389,000 (£332,000). Asset value per share 115.75p (102.25p).

NEW GUERNSEY Securities revenue before tax for 1988 was *£38,867 (£18,103). Tax took* £11,445 (£1,405). Earnings per share emerged at 1.4p (0.8p) before, and 0.7p (0.2p) after preliminary expenses.

OIS GROUP is to be renamed Brompton Group following acquisitions from Inspectorate *UK Holdings, which will be* allotted 8.6m shares, of which Mr Paul Bristol is buying 4m. As a result Mr Bristol will hold 40.2 per cent and Inspectorate 37.2 per cent.

PRIEST MARIANS proposed acquisition of Local London group will not be referred to the Monopolies Commission.

TADPOLE TECHNOLOGY, an OTC traded company, reported pre-tax profits up from £348,000 to £462,000 for 1988 on turnover up from £2.56m to £4.57m. The company is preparing to seek a isiting on a recognised stock *exchange.*

TEXTRON said its offer for Avdel will close on April 24.

TOPS ESTATES has purchased the freehold of Corby Town Centre for £25m.

FINANCIAL TIMES STOCK INDICES

	Mar 17	Mar 16	Mar 15	Mar 14	Mar 13	Mar. 10	1988/89 High	1988/89 Low	Since Compilation High	Since Compilation Low
Government Secs.	88.29	88.61	88.78	88.65	88.59	88.76	91.43	86.18	127.4	49.18
Fixed Interest	99.23	99.44	99.59	99.29	99.30	99.35	99.59	94.14	105.4	50.53
Ordinary	1705.5	1740.1	1754.3	1761.1	1739.4	1724.9	1761.1	1349.0	1926.2	49.4
Gold Mines	193.0	194.2	194.6	192.2	192.1	187.8	312.5	154.7	734.7	43.5
FT-Act All Share	1076.71	1095.79	1099.58	1101.68	1091.27	1083.32	1101.68	870.19	1238.57	61.92
FT-SE 100	2073.1	2112.6	2121.2	2125.4	2103.0	2085.2	2125.4	1694.5	2443.4	986.9

DIARY DATES

Trade Fairs and Exhibitions: UK

Current
British Footwear Fair (01-739 2071) (until April 14)
NEC, Birmingham

Current
International Cycle & Leisure Fair (01-390 2211) (until March 21)
Olympia

March 21-22
British Institute of Management Exhibition and Conference (0536 204222)
Wembley Conference Centre

March 24-25
Cash and Carry Fashion Fair (01-727 1929)
Kensington Town Hall, London

March 29-31
Fashion Fabrics Exhibition – FABREX (01-385 1200)
Olympia

March 30-April 5
British International Antiques Fair (021 780 4171)
NEC, Birmingham

April 3-5
London International Book Fair (01-940 6065)
Olympia

April 10-14
International Fire & Security Exhibition & Conference – IFSEC (01-868 4466)
Olympia

April 11-13
International Trenchless Construction for Utilities Conference and Exhibition - NO DIG (0923 778311)
Kensington Exhibition Centre

April 13-15
Corporate finance show – VENTURE (0491 410222)
NEC, Birmingham

April 17-21
International Maritime Exhibition - EXPOSHIP LONDON (0206 4512)
Barbican Centre

April 23-26
The London International Furniture Show (01-370 8215)
Earls Court

April 25-27
British Electronics Week (0799 2669)
Olympia

Overseas Exhibitions

March 23-28
International Nuclear Technology and Instrumentation and Equipment Exhibition – NT & IE CHINA (01-229 2616)
Beijing

March 30-April 9
International Household Fair – HUISHHOULDBEURS (01-741 4437)
Amsterdam

April 3-8
International Plastics and Rubber Industries Exhibition – CHINAPLAS
Shanghai

April 4-7
International Airport and Aerospace Engineering Exhibition and Symposium (01-493 0992)
Osaka

April 10-14
International Water Supply Exhibition (0923 778311)
Berlin

April 15-23
Great April Fair (Milan 4997 298)
Milan

April 17-22
Office Equipment, Data Processing & Software Exhibition - SICOB (01-225 5566)
Paris

Business and management conferences

March 20-21
Financial Times Conferences: Retailing in the 90's – The role of technology (01-925 2323)
Hotel Inter-Continental, London

March 20
Blenheim Online: Introduction to OSI (01-868 4466)
Queen Elizabeth II Conference Centre, London

March 21-22
IPM Personnel Management Services: The acts of epmloyment (01-946 9100)
Rubens Hotel, London

March 22
The Institute of Economic Affairs: Tensions and opportunities in Britain's EC relationships (01-799 3745)
Queen Elizabeth II Conference Centre, London

March 30
HS Conference Studies/ Property Management: Property management – New solutions to current problems (01-935 2382)
Cavendish Conference Centre, London

April 3-7
EUUG: UNIX-European Challenges (010822 44763 73039)
Brussels

April 4
CBI Conferences/Direct Marketing Centre: Agenda for change (01-379 7400)
Centre Point, London

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

PARLIAMENTARY

Today

Commons: Conclusion of Budget debate.
Motion on Education (Grant Maintained Schools) Regulations.
Lords: Companies Bill, report.
Motions on Legal Aid Regulations.
Select committees: Environment: subject, British Waterways Board. Witness: Inland Waterways Association. (Room 21, 5.15 p.m.)

Tomorrow

Commons: Progress on remaining stages of the Water Bill.
Motion on Scottish Rent Offices Orders.
Lords: Security Service Bill, committee.
Motions on Matrimonial and Family Proceedings Orders (Northern Ireland).
Select committees: Education, Science and Arts: subject, supply of teachers for the 1990s. Witnesses: Royal Society, Engineering Council, Mathematical Association, Association for Science Education, and Joint Council for Language Associations. (Room 15, 4.15 p.m.)

Wednesday

Commons: Progress on remaining stages of the Water Bill.
Motion on Legal Aid and Advice Regulations.
Lords: Debate on "The growth of non-elected bodies."
Debate on "Government social policy, particularly young people, the poorly paid and the elderly."
Select committees: Foreign Affairs: subject, the Sino-British agreement on Hong Kong. Witness: Sir Geoffrey Howe. (Grand Committee Room, Westminster Hall, 10.30 a.m.)
Trade and Industry: subject, financial services in the single market. Witnesses: Consumers Association, Consumers in the European Community and Bifu. (Room 15, 10.45 a.m.)
Defence: subject, AWACS, offsets. Witnesses: MoD and Boeing. (Room 16, 10.50 a.m.)
Energy: subject, energy relations with the Soviet Union. Witnesses: CEGB and UKAEA. (Room 8, 11 a.m.)
Agriculture: subject, land use and forestry. Witness: Forestry Commission. (Room 18, 4 p.m.)
Employment: subject, part-time work. Witnesses: Ms Linda Dickens, University of Warwick and Ms Olive Robinson, University of Bath. (Room 20, 4.15 p.m.)
Foreign Affairs: subject, the Sino-British agreement on Hong Kong. Witness: Sir David Wilson, Governor of Hong Kong. (Grand Committee Room, Westminster Hall, 4.15 p.m.)
Home Affairs: subject, higher police training. Witness: Home Office. (Room 15, 4.15 p.m.)
Treasury and Civil Service: subject, the Budget. Witness: Treasury. (Room 8, 4.30 p.m.)

Thursday

Commons: Adjournment debates.
Lords Transport (Scotland) Bill, second reading.
Motion for approval on the Evidence in Divorce Actions (Scotland) Order and motions on Merchant Shipping Regulations.

FINANCIAL

TODAY
COMPANY MEETINGS-
Beckenham Group, Ironmongers' Hall, Aldersgate Street, E.C., 12.00
Fleming Claverhouse Inv. Tst., Caledonian Hotel, Princes Street, Edinburgh, 12.00
BOARD MEETINGS-
Finals:
Abbeycrest
Andersen Ree
Aran Energy
Booker
Bredero Props
Brent Chemicals Intl
Cairn Energy
Cambridge Electronic Inds
Clayform Props
Colorgraphic
Dauphin
EBC
Edinburgh Oil & Gas
European Home Products
Evans Halshaw
Hambro Countrywide
IMI
Iceland Frozen Foods
Irish Distillers
Lilleshall
Lilley (F. J. C.)
Memec
Metalrax
Pacific Sales
Rugby
Scott & Robertson
Trinity
Oy Wartsila AB
Wilson Bowden
Interims:
Budgens
Halstead (James)
Lucas Inds
Savage Group
Trafford Park Estates
DIVIDEND AND INTEREST PAYMENTS-
Arab Banking Corp. Fltg. Rate Nts. 1996 $[illegible]
Bank fur Arbeit und Wirtschaft AG Sub. Flg. Rate Nts. 1999 $445.52
Cardiff Property 1.4p
Christiania Bank OG Kreditkasse Reverse Fltg. Rate Nts. 1997 $327.89
Enron Corp. 62cts.
Exchequer 10¼% 2005 5.125pc.
Fleming O'seas Inv. Tst. 1.5p
Honeywell 52.5cts.
Inco 20cts.
Korea Exchange Bank Flg. Rate Nts. 1995 £185.65
M & G American & General Fd 1.57p
Do. Intl. Growth Fd. 0.47p
McKay Securities 2.5p
Marine Midland Banks Inc. Fltg. Rate Sub. Nts. 2009 $343.31
Midland Bank Und. Fltg. Rate Prim. Cap. Nts. (Sept. 1985 Iss.) $445.52
News Intl. Gtd. Flg. Rate Nts. 1991 $345.68
Ransomes Sims & Jefferies 5½% Prf. 1.925p
Riggs National Corp. Flg. Rate Sub. Nts. 1995 $245.31
Smithkline Beckman Corp. 48cts.
Standard Chartered Und. Prim. Cap. Flg. Rate Nts. (Br$5000 & $0000) £162.59
Ultramar 6% Cnv. Bds. 2002 3pc.

TOMORROW
COMPANY MEETINGS-
Meldrum Inv. Tst., Gaynor House, 1 Thomas More Street, E., 11.30
Tace, Essex Hall, Essex Street, W.C., 11.00
BOARD MEETINGS-
Finals:
BBQ Intl
Banner Homes
Bemrose
Bowthorpe
Bunzl
Burford
Chrysalis Intl
Cluff Resources
Clyde Petroleum
Dalla
Dewhurst Bros
Estlie
Federated Housing
Food Inds
Gesal
Hall Engineering
Handley-Walker
Hepworth
Hewitt (J.) & Son
Jacobs (John I)
Johnston Cleaners
Kalon
Kwik-Fit
Laing Props
Law Debenture
Linread
London & Metropolitan
Mining & Allied Supplies
Morrison (Wm.)
Parsons (Penny)
Peek
Plaxton
Prudential
RTZ Corp
River & Mercantile American Cap & Inc Tst
Royal Sovereign
Sharp & Fisher
Sumit
Southampton IOW Steam
Trade Indemnity
WSP
Western Motor
Wimpey (George)
World of Leisure
Interims:
Benchmark
Burton
GR Hldgs
Peterson Zochonis
Star Computer
TIP Europe
DIVIDEND AND INTEREST PAYMENTS-
Abbey National Bldg. Soc. Flg. Rate Nts. 1991 £322.52
Beckenham Group 1.5p
British Bloodstock Agency 2.5p
Greenhaven Securities 7½% Uns. Ln. 91/96 3.75pc.
Group Development Cap. Tst. 0.7p
Hardys and Hansons Brewery 11.6p
Do. A 11.6p
Limited Inc. 8cts.
Lone Star Inds. 47.5cts.
Marine Midland Bank NA Flg. Rate Sub. Cap. Nts. 1995 $342.19

WEDNESDAY MARCH 22
COMPANY MEETINGS-
Drayton Far Eastern Tst., 11 Devonshire Square, 11.00
Trust of Property Shares, The Association of Inv. Tst. Co's, Park House, 16 Finsbury Circus, E.C., 11.00
TVS Entertainment, Le Meridien Hotel, 21 Piccadilly, W., 12.00
BOARD MEETINGS-
Finals:
BAT
Bostrom
Brake Bros
Bridon
Britannic Assurance
British Mohair
Cookson
Davies & Metcalfe
Duncan (Walter) & Goodricke
Emess
Fitch-RS
Floyd Energy
Gaskell Broadloom
Guidehouse
Halls Homes & Gardens
Holders Tech
Jones & Shipman
Kleinwort Benson
Laporte Inds
London Forfaiting Co
Macallan-Glenlivet
Mathews (Bernard)
Morgan Grenfell
Norfolk Capital
Relyon
Rentokil
Richards Group
Rolls Royce
Secure Tst
Silkolene Lubricants
Smith & Nephew
Spring Ram
Standard Chartered
Steel Burrill Jones
Telemetrix
Tibbett & Britten
Tilbury Group
Trilion
Turriff Corp
Waterford Foods
Wolstenholme Rink
Interims:
Barratt Developments
Britannia Security
Cramphorn
EFM Dragon Tst
Gabicci
House of Lerose
Lloyd Thompson
Maunders (John)
Wolseley
Yorkshire TV
DIVIDEND AND INTEREST PAYMENTS-
Brooke Tool Eng. Hldgs. 1.1p
Exchequer 12½% 1990 6.25pc.
Do. 13½% 1992 6.75pc.
Pfizer Inc. 55cts.

THURSDAY MARCH 23
COMPANY MEETINGS-
Blick, The Howard Hotel, Temple Place, Strand, W.C., 12.00
Domino Printing Sciences, Cambridgeshire Moat House, Bar Hill, Cambridge, 10.00
Greenfriar Inv. Co., 3 Finsbury Avenue, E.C., 2.30
Hey & Croft, Glaziers Hall, 9 Montague Close, S.E., 12.00
House Property Co. of London, 85 Holborn Viaduct, E.C., 9.55
Selective Assets Tst., Caledonian Hotel, Princes Street, Edinborgh, 12.00
Soundtracs, 55 Grosvenor Street, W., 10.30
Sycamore Hldgs., Piccadilly Hotel, Manchester, 11.00
Vantage Securities, Knightsbridge House, 197 Knightsbridge, S.W., 4.30
Ward Hldgs., 82 New Cavendish Street, W., 2.30
BOARD MEETINGS-
Finals:
Barker (Charles)
Bilston & Battersea Enamels
Central Independent TV
Garton Engineering
Isle of Man Steam Packet
Laing (John)
Martin Currie Pacific
Mayborn
North Midland Construction
Rotork
Interims:
Pressac
DIVIDEND AND INTEREST PAYMENTS-
AAH Hldgs. 4p
Anglia Bldg. Soc. Fltg. Rate Nts. 1996 £161.28
BWD Securities 2.8p
Black & Decker Corp. 10cts.
Dunton Group 0.45p
Essex Water 3½% (Fmly. 5%) Cons. 1.75p
Do. 3½% (Fmly. 5%) New 1.75p
European Inv. Bank 11% Ln. 2002 5.5pc.
Ewart 0.75p
Grahams Rintoul Inv. Tst. 1p
Impala Plat. Hldgs. 75cts.
Mercury Offshore Sterling Tst. Global Fd. 1.624p
Do. O'seas Fd. 1.178p
Do. European Fd. 0.708p
Do. Nth. American Fd. 0.124p
Do. Pacific Fd. 1.880p
Do. UK Fd. 2.773p
Do. Cash Fd. 8.134p
National & Provincial Bldg. Soc. Fltg Rate Nts. 1996 £161.82
Oxford Instruments Group 1p
Transrap Hldgs. 1p
Treasury 2% IL 1992 £1.091
Union Discount Co. of London 18.5p
Warner Estate Hldgs. 4.25p

FRIDAY MARCH 24
DIVIDEND AND INTEREST PAYMENTS-
Alexanders Hldgs. 1p
Do. A 1p
Asian Development Bank 10¼% Ln. 2009 5.125pc.
Contl. Assets Tst. 0.35p
Dudley Jenkins Group 1p
Hercules Inc. 56cts.
Intl. Bank for Rec. & Dev. 9½% Ln. 2010 4.75pc.
Logitek 1.2p
Spain (Kingdom of) 11¾% Ln. 2010 5.875pc.
Treasury 2½% IL 2001 £1.7039

SATURDAY MARCH 25
DIVIDEND AND INTEREST PAYMENTS-
Associated British Foods 5½% Uns. Ln. 87/2002 2.75pc.
Do. 7½% Uns. Ln. 87/2002 3.75pc.
Centrovincial Estates 6¼% Uns Ln. 88/93 3.125pc.
Chapman Inds. 8½% 1st Mtg. Deb. 93/98 4.25pc.
Charlwood Alliance Hldgs. 7½% Uns. Ln. 3.75pc.
Lonrho 9% 2nd Mtg. Deb. 87/92 4.5pc.
M & G Commodity & General Fd 2.15p
Manchester Corp. 3% Red. Cons. 1928 (or after) 1.5pc.
Metropolitan Water Chelsea Wtr. Works 2¾% Deb. 1897 1.375p
Mid-Sussex Water Co. 3.325% (Fmly. 4¾%) Irrd. Prf. 1.6625p
New Zealand 11½% 2014 5.75pc.
Renold 8% 1st Deb. 91/96 4pc.
TSB Gilt Fd. Ptg. Red Prf. Class B 1p
Tendring Hundred Waterworks 4½% Deb. Red. 2.25pc.
Do. 7½% Red. Deb. 91/93 3.75pc.
Trafalgar House 9½% Uns. Ln. 2000/05 4.75pc.
Do. 8% Uns. Ln. 94/99 4pc.
Treasury 8% 2009 4pc.
Wilding Office Equip. 2.4p

SUNDAY MARCH 26
DIVIDEND AND INTEREST PAYMENTS-
Exchequer 12¼% 1999 6.125pc.
Hanson 10% Cnv. Uns. Ln. 2007/12 5pc.
Treasury 13½% 2004/08 6.75pc.
Vaux Group 9¾% Deb. 2015 4.9375pc.
Do. 11¾% Deb. 2010 5.875pc.

APPOINTMENTS

Music publishing moves

■ SBK Entertainment World Inc was purchased in the US by THORN EMI last January for £187m ($337m). The company has now been integrated with EMI Music Publishing Worldwide, with Mr Charles Koppelman appointed as chairman and chief executive officer, and Mr Martin Bandier as vice chairman of the combined EMI/SBK music publishing operation. Mr Koppelman and Mr Bandier were two of three co-owners of the privately held SBK Group. Mr Irwin Robinson becomes president and chief operating officer of the new company. Mr Koppelman and Mr Bandier will remain in charge of the SBK Records label established as a joint venture between themselves and EMI Music in conjunction with the above acquisition.

■ Ms Pippa Leslie has joined TRAVEL FOR INDUSTRY as sales director. She was with Thomas Cook.

■ SAC INTERNATIONAL has appointed Dr Hugh Metcalfe as a non-executive director from April 1. He was deputy chief executive (operations) of British Aerospace. He replaces Mr Raymond Whitfield who has retired.

■ Mr Harry Littlefair has joined the main board of PERSIMMON, York, as a non-executive director. He retired last year as vice chairman of Allied Dunbar Asset Management, and Allied Dunbar Trusts.

■ Mr Terry Banner has been appointed commercial director, and Mr Jean-Pierre Billiard becomes European director on the board of HYMAN.

■ Mr Ken Wheeler has been appointed group finance director of BROAD STREET GROUP. He was group financial controller.

■ Mr Ernest Jones, formerly president of Stromberg-Carlson, GEC PLESSEY TELECOMMUNICATIONS' US telecommunications arm, has been appointed director of group business developoment for GPT, based in Coventry.

■ Mr N.G. Brookes has been appointed a director of BRITISH-AMERICAN TOBACCO COMPANY.

■ THORNTONS has appointed Mr J. Coyle as a divisional director with responsibility for group business development. Mr N.J. Etchells, divisional managing director - retail, has been appointed to the new role of divisional director responsible for European retail development. Until a new appointment is made Mr Etchells will be responsible for both posts.

■ Mr John Graham has been appointed director of finance at EPSON (UK), Hemel Hempstead. He was with Coopers & Lybrand.

■ Mr John Girdley has joined QUADRATRON SYSTEMS INC as vice president of European operations, based in London. He was with Memorex International.

■ CABANA SOFT DRINKS, Preston, a subsidiary of J.N. Nicholls (Vimto), has appointed Mr Barrie Bruce as managing director, northern division. He was with Schweppes.

■ Mr Alan Mills, president, GEC Canada, succeeds Mr Pat Sansom as managing director of OSRAM-GEC on July 1. Mr Sansom, who is retiring, becomes vice chairman to assist during the hand over.

■ Mr Ken Turnbull, managing director of Bechtel, UK, has been elected a senior vice president of parent company Bechtel Group Inc, US.

NATIONAL & PROVINCIAL BUILDING SOCIETY has appointed Sir John Sparrow *(above)* to the board. He was a director of Morgan Grenfell, and is deputy chairman of Short Brothers.

FT UNIT TRUST INFORMATION SERVICE

● Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 01-925-2128

AUTHORISED UNIT TRUSTS

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Abbey Unit Tst Mngrs (1200)H						
80 Holdenhurst Rd, Bournemouth 0345 717373						
High Income						
American Income	6	47.73	47.73xd	51.05	5.37	40080
Gilts & Fixed Int	6	112.40	112.40xd	119.40	8.38	40001
High Inc Equity	6	131.50	134.60	143.10	4.44	40002
Worldwide Bond	6	186.30	186.30xd	197.70	4.91	40003
Capital Growth						
American Growth	6	163.40	165.40	175.90	1.40	40004
Asian Pacific	6	86.21	88.04	93.65	0.92	40005
Assets & Earnings	6	159.80	163.80	174.20	2.14	40006
Capital Reserve Acc	0	83.82	83.82xd	83.83	4.77	40007
Commodity & Energy	6	98.50	98.50xd	105.40	0.00	40008
1992 Enterprise	6	56.09	56.12	59.70	3.02	46597
European Capital	6	76.08	78.08	83.51	0.90	40009
General	6	173.70	173.70	185.80	2.42	40010
Japan	6	102.90	104.70	111.30	0.00	40011
Mastertrust	6	80.69	80.69	86.30	1.87	40012
UK Growth Acc	6	202.40	210.60	224.00	1.25	40013
UK Growth Dist	6	135.80	141.30	150.30	1.87	40014
US Emerging Cos	6	47.90	49.58	52.74	0.00	40015
Income & Growth	6	290.00	296.30	315.20	3.25	40016
Ethical	6	48.75	49.89	53.07	2.36	40017
Abtrust Management Ltd (1000)H						
10 Queens Terrace, Aberdeen AB9 1QJ 0800 833580						
American	5¼	43.60	43.60	46.55	1.67	40022
Australian	5¼	22.40	22.40	23.92	1.17	40024
European	5¼	54.01	54.01	57.66	0.00	40025
Extra Income	5	43.27	43.27xd	45.93	4.82	40021
Fund Inv Tst	5	119.2	119.2	127.3	1.98	40100
Do Accum	5	181.7	181.7	194.0	1.94	40101
Gilt & Fixed Int	5¼	21.91	21.91	23.39	10.03	40026
Global Income	5¼	39.59	39.59	42.26	4.33	40027
Income & Growth	5¼	72.78	72.78	77.69	3.68	40029
Japan	5¼	175.3	175.3	187.1	0.01	40030
Nth Amer Inc (z)	3	27.01	27.01	28.67	4.34	40019
Special Situations	5¼	72.09	72.09	76.95	0.89	40032
[illegible]						
Buckmaster Mangmt Co Ltd—Contd.						
General Inc	5	306.10	313.6	332.7	2.28	40208
(Accum Units)	5	509.2	521.5	553.3	2.28	40209
Income	5	157.2	162.6	172.5	3.75	40210
(Accum Units)	5	300.5	310.6	329.5	3.75	40211
International	5	116.0	116.0	122.7	3.07	40212
(Accum Units)	5	158.1	158.1	167.2	3.07	40213
Smaller Co's	5	112.6	115.5	122.5	1.08	40214
(Accum Units)	5	123.2	126.3	134.0	1.08	40215
Inv Portfolio	2½	53.97	55.83	57.56	3.62	-
(Accum Units)	2½	54.95	56.85	58.61	3.62	-
High Income Port	3	48.63	48.86	50.65	6.30	-
Burrage Unit Tst Mangmt Ltd (0905)F						
117 Fenchurch St, London EC3M 5AL 01-480 7214						
Stk Ded Gilt & FI	1¼	52.25	52.25xd	52.99	11.37	40216
CCL Unit Trusts Ltd (1400)F						
74 Shepherds Bush Green, W12 8SD 01-740 7070						
UK General Tst	5½	54.12	55.02	58.84	2.70	40217
Global Tst	5½	40.45	40.62	43.44	2.90	40218
Recovery Tst	5½	56.87	58.16xd	61.87	2.41	40219
CIBC Unit Tst Managers plc (1200)H						
Cottons Ctr, Cottons Lane, Ldn. SE1 2QL 01 234 6000						
Growth Fd Acc	5	107.0	108.5	114.3	3.46	40220
CS Fund Managers Limited (1000)H						
125 High Holborn, London WC1V 6PY 01-242 1148						
CS America	5	53.54	53.54xd	56.95	0.43	40221
CS International	5	53.71	53.71	57.13	1.78	40222
CS Japan	5	119.9	119.9	127.5	0.79	40223
CS Portfolio Inv $	5	69.98	69.98xd	74.44	1.95	40224
Canada Life Unit Tst Mgrs Ltd (1200)F						
2-6 High St, Potters Bar, Herts 0707 51122						
Can Gen Dist	5	138.3	143.5	151.1	3.06	40225
Do Gen Accum	5	230.7	239.4	252.0	3.06	40226
Do Income Dist	5	96.42	100.1	106.4	5.35	40227
Do Inc Accum	5	216.6	225.0	236.8	5.35	40228
Gilt & Fxd Int	5	36.85	36.99xd	38.94	8.34	40229
Cannon Fund Managers Ltd (0700)H						
1 Olympic Way, Wembley, HA9 0NB 01-902 8876 Dealing: 0800 282621						
Growth	5½	37.80	38.12	40.77	2.51	40230
Income	5½	47.60	47.94	51.27	4.04	40231
Far East $	5½	34.12	34.75	36.97	0.17	40232
North American $	5½	30.04	30.04	32.44	0.64	40233
[illegible]						

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Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Provident Mutual Unit Tst Mgrs Ltd (0905)H						
25-31 Moorgate, London, EC2R 6BA 01-588 3963						
PM Equity Gth	5	119.2	121.6xd	129.3	2.76	41169
PM Income & Gth	5	105.3	107.0xd	113.8	4.60	41170
PM Nth Amer Gth	5	48.13	48.13	51.20	1.47	41171
PM European Gth	5	47.68	47.68	50.72	0.67	41172
PM Japan Gth	5	75.15	75.27	80.07	0.31	41173
PM Overseas Gth	5	48.74	48.74	51.85	0.51	41174

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ♠ - 1401 to 1700 hours; ♣ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.
Other explanatory notes contained in last column of the FT Unit Trust Information pages.

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OTHER UK UNIT TRUSTS

INSURANCES

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FT UNIT TRUST INFORMATION SERVICE

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	Bid Price	Offer Price	Yield Gross	Citycode
Pioneer Mutual Insurance Co Ltd				
16 Crosby Rd, N. Waterloo, Liverpool 051-928 6655				
Managed Fund	297.1	312.8	–	43272
Man Pens Inc & Cap Fd	391.1	411.7	–	43273
Money Fund	117.7	123.9	–	43274
Pens Mngd Fd (Unit)	103.4	108.9	–	43275
Pens Mngd Fd (Acc)	123.5	130.0	–	43276
Pens FT30 Fd (Unit)	147.5	155.3	–	43277
Pens FT30 Fd (Acc)	176.2	185.5	–	43278
Pens O'seas Mgd Fd (Unit)	73.4	77.3	–	43279
Pens O'seas Mgd Fd (Acc)	87.7	92.4	–	43280
Pens Fxd Int Fd (Unit)	105.3	110.9	–	43281
Pens Fxd Int Fd (Acc)	125.7	132.4	–	43282
Pens Deposit Fd (Unit)	103.7	109.2	–	43283
Pens Deposit Fd (Acc)	125.9	130.5	–	43284
Premium Life Assurance Co Ltd				
37-39, Perrymount Road, Haywards Heath 0444 458721				
American	120.0	116.0	–	43285
Building Soc. Fd	168.0	177.0	–	43286
Balanced	274.0	289.0	–	43287
Deposit	168.0	177.0	–	43288
European	152.0	160.00	–	43289
GT Managed	175.0	185.0	–	43290
Gartmore Mngd	111.0	117.0	–	43291
German	104.0	110.0	–	43292
Gilt	177.0	187.0	–	43293
Global	48.0	51.0	–	–
High Inc.	116.0	123.0	–	43294
International Equity	179.0	189.0	–	43295
Japan	233.0	246.0	–	43296
Managed	63.0	67.0	–	43297
Property	276.0	291.0	–	43298
R. W. Imperial Gold	131.0	138.0	–	43299
UK Equity	372.0	392.0	–	43300
Pension Funds				
American	136.0	144.0	–	43301
Building Soc. Fd	166.0	175.0	–	43302
Balanced	214.0	226.0	–	43303
Deposit	159.0	168.0	–	43304
European	154.0	163.0	–	43305
German	96.0	102.0	–	43308
Gilt	149.0	157.0	–	43309

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

SWITZERLAND (SIB RECOGNISED)

BERMUDA AUTHORISED

GUERNSEY (**)

JERSEY (SIB RECOGNISED)

JERSEY (**)

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FT UNIT TRUST INFORMATION SERVICE

ISLE OF MAN (**)

LUXEMBOURG (**)

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LONDON SHARE SERVICE

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LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

CANADIANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
–	▼ABM Gold Corp ‡	134p	–	–	–	–	–
–	▼Abbot Energy Corp.	17p	–	–	–	–	–
756.0	▼Amer. Barrick Res	13¼	–	–	–	–	–
–	▼Amer. Lightwave ‡	2½p	–	–	–	–	–
–	▼Armeno	17p	–	–	–	–	–
–	▼Asiamerica ‡	108p	–	–	–	–	–
–	▼Augmitto Expln	27p	–	–	–	–	–
1,465.5	Bk. Montreal ‡	14	$2.12	7.3	8.8	Fb My Ag Nv	–
1,212.4	Bk. Nova Scot. ‡	731p	84c	5.5	28.9	Ja Ap Jy Oc	–
4,897.1	BCE ‡	18¼xd	$2.44	6.5	13.3	Ap Jy Oc Ja	–
315.2	▼Bow Valley‡	761p	♦40c	2.5	15.12	May Nov.	–
908.1	▼Brascan‡	13¾	88c	3.2	28.10	Ja Ap Jy Oc	–
45.3	▼Breakwater Res.	202p	10c	2.4	–	–	–
2,093.3	Can. Imp Bank‡	13¾	$1.16	4.2	29.6	Fe My Au No	–
3,489.6	Can. Pacific ‡	11¼	76c	3.2	28.9	July Jan.	–
18.0	Do. 4pc Deb £100.	38½	4%	10.4	24.11	July Jan	2051
–	Central Capital "A" ‡	444p	–	–	–	–	–
–	▼Corona Corp.	432p	–	–	–	–	–
58.2	▼Cons TVX Min.	359p	–	–	–	–	–
–	▼Daubus Mem. Syst.‡	19½p	–	–	–	–	–
–	▼Derlan Inds. ‡	683p	11.75c	0.9	3.6	Mr Ja Se De	–
881.7	▼Echo Bay Mines	931p	$0.07	0.4	–	June Dec	–
–	▼ECO Corp ‡	465p	–	–	–	–	–
–	▼Energex Minerals‡	16p	–	–	–	–	–
66.2	▼Galactic Resources	222p	–	–	–	–	–
244.1	Gandalf Techs. Inc.	279p	–	–	–	–	5088
4.52	▼Geodome Res.	34p	–	–	–	–	–
33.3	Granges Expln‡	153p	–	–	–	–	–
–	▼Gt Pacific Res.	24½p	–	–	–	–	–
–	▼Gulf Canada‡	793p	52c	3.3	26.3	Ja Ap Jy Oc	–
98.3	▼Hawker Sid Can‡	12¼	$1.08	4.3	15.11	Ap Jy Oc Ja	–
–	▼Healys Group	475p	–	–	–	–	–
377.1	▼Hudson's Bay ‡	12⅝	60c	2.3	2.10	Mr Jn Sp Dc	–
4,348.1	▼Imperial Oil‡	26¼	$1.80	3.2	26.11	Mr Je Se De	–
1,872.3	Inco‡	17¼	s$0.80	2.6	2.11	Jan Ag J O	–
–	▼Inland Nat. Gas $1	639p	60c	4.5	30.12	Fe My Au No	–
7.84	▼Madeleine Mines	134p	–	–	–	–	–
–	▼Muscocho Expln	190p	–	–	–	–	–
–	▼Nevada Goldfields	114p	–	–	–	–	–
495.7	▼Rio Algom	11⅝	$1.30	5.4	5.11	June Dec	–
2,819.2	Royal Bk. Can. ‡	19⅝	$2.20	5.4	19.10	Mr Je Se De	–
4,895.2	Seagram‡	40¼	[illegible]	2.0	28.2	Se De Mr Ju	–
–	▼Sonora Gold Corp‡	187p	–	–	–	–	–
–	▼Spiral Eng ‡	73p	–	–	–	–	–
–	▼Tara Pure Tech Corp‡	73p	–	–	–	–	–
2,874.1	Toronto-Dom. Bk.‡	19½	$1.12	2.8	22.12	F My Au No	–
933.3	▼Trans Can Pipe	749p	68c	4.4	1.12	Ja Ap Jy Oc	–
278.2	Varity Corp‡	160p	[illegible]	–	11.77	–	–

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

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DRAPERY AND STORES

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FOOD, GROCERIES, ETC

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INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INDUSTRIALS (Miscel.) – Contd.

INSURANCES

LEISURE

LONDON SHARE SERVICE

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LEISURE—Contd

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
10.7	Grampian TVA 10p	47	†2.5	5.0	28.11	Jan June	2752
1.40	Greenwich Comm.	38	–	–	–	–	2772
69.1	HTV Ord	199	††3.9	4.8	17.10	Nov. Apr.	2797
120.7	Hanimex A$0.25	175	†Q15c	4.0	1.11	Dec. June	2819
46.7	Hi-Tec Sports	128	13.6	4.0	17.10	June Dec	5112
12.9	Int'l Media Comm. 5p	17	–	–	9'85	–	2483
15.7	Juliana's Hldgs 2p	74	†2.85	5.1	31.10	Nov June	3066
54.8	Kunick 10p	56	1.4	3.9	16.1	Mar. Jul.	4686
175.1	LWT 5p	380	15.7	3.6	28.11	Jan April	3233
164.0	Leisure Inv 10p	188	1.75	2.2	7.3	January	3151
56.7	[illegible]	95	–	–	5.87	–	3152
75.2	Marina Dev. 50p	488	[illegible]	0.6	13.2	November	5286
999.8	Mecca Leisure 10p	196	4.5	3.1	30.1	Mar Sept	5326
9.06	Medminster 10p	118	†3.67	4.2	28.11	Apr. Dec.	5329
18.4	Metro Radio Grp 5p	194	L3.0	2.1	–	–	1405
134.3	Midsummer Leis 10p	246	2.8	1.5	28.12	February	3384
33.6	Miss World 10p	514	8.0	2.1	31.10	Oct May	3394
8.21	[illegible] Video 50p	38	–	–	9'86	–	4998
27.1	Noble Raredon 5p	148	g1.33	1.3	–	–	2715
23.1	[illegible]	230	–	–	1'84	–	–
73.3	Owners Abroad 3p	85	2.35	3.7	13.3	May	3574
9.03	Pavilion Leisure 10p	128	–	–	–	–	3611
25.4	[illegible]	317	43.25	1.4	27.2	Apr Sept	3657
48.4	Pickwick	217	3.25	2.0	13.3	Sept Mar	3658
44.2	Prestwich	122	†1.25	1.4	13.3	Apr Nov	3716
5.77	Prism Leisure 10p	144	†4.46	4.1	30.1	Feb Sept	3724
69.5	Quadrant Group 10p	244	F3.6	2.0	17.10	Jan July	3737
10.9	Radio City 'A' NV	493	6.0	1.6	12.12	–	3755
20.8	Radio Clyde	338	5.75	2.3	28.11	Jan July	3756
66.4	Really Useful Grp 5p	680	†15.0	3.3	27.2	May Dec	3788
34.2	Saga Group 20p	381	25.75	2.5	30.1	Apr. Nov.	3903
5.67	Scott. Ice Rink 2½p	84	–	–	–	April	5075
49.3	Scott. TV 10p	442	†17.0	–	31.10	Dec May	3965
2.61	SelecTV 1p	39	–	–	–	–	3991
44.5	Stanley Leisure	262	†3.6	1.8	30.1	Feb. Sept.	4097
12.4	Sunset & Vine 5p	248	L7.4	1.2	–	–	5303
16.5	TSW 5p	79	†3.15	5.4	17.10	May Nov	4322
140.1	TV-am 5p	213	†4.5	2.8	3.10	Dec. May	4162
214.7	TVS Entertain 10p	339	13.25	5.2	13.2	Mar Aug	4186
56.3	Do. 7.4pc Prf	113	7.4%	8.7	28.11	–	5284
226.6	Thames TV	472	†13.2	3.7	28.11	Jan. July	4204
12.0	[illegible]	118	5.0	5.7	14.11	Jan June	4260
33.6	Trillion 10p	99	g1.1	2.6	16.6	Feb Aug	4306
46.4	Tyne Tees 50p	455	17.25	5.1	13.3	Dec. June	4331
12.8	Ulster TV	137	4.75	4.8	17.10	Jan July	4339

PROPERTY

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid
94.4	Allied London 10p	242	2.75	2.6	31.10	Jan July
51.6	Do. 5¼pc Cm Ref Prf	129	5¼%	5.9	3.10	Apr Oct
162.9	Arlington Sec 10p	286	6.0	3.9	13.3	May Nov
94.8	Asda Property 20p	169	†1.0	0.8	19.9	July
20.9	Do 5¼pc Cm.Rd.Pf.	133	5¼%	5.1	28.11	Dec July
6.52	BDA Hldgs. 10p	72	†2.5	4.6	14.11	May Nov
87.4	BHH Group 50p	123	1.25	1.4	17.10	Apr Oct
29.3	Baker Hrris Sndrs10p	238	†6.25	3.6	12.12	Feb Aug
11.4	Barlows 10p	85	0.75	1.2	17.10	May Nov
33.5	Billingsgate City	138	5.9	6.1	12.10	June Dec
223.4	Bilton (Percy)	522	†13.98	3.6	17.10	Dec Aug
191.0	Bradford Prop	660	†12.5	2.5	14.11	Dec. Aug
50.1	Bredero Props.	246	†5.0	2.7	19.9	Apr Oct
13.7	Britannia Grp. 5p	121	L3.85	4.2	3.10	Nov. May
782.0	British Land	348	†4.0	1.5	12.12	Feb. Aug
328.0	Brixton Estate	399	†7.8	2.6	3.10	July Nov
49.9	Broadwell Ld 50p	195	L4.1	2.8	28.12	–
68.8	Brookmount	505	†5.25	1.4	28.12	Feb. Aug
2.65	Caledonian Tst 20p	500	–	–	27.1	February
523.3	Capital & Counties	397	10.5	3.5	27.2	Apr Sept
92.8	Do 5¾ pc Pref	180	5.75%	7.7	17.10	Apr Oct
16.3	Cap. & Reg. Prop.	138	10.3	0.3	3.10	–
9.43	Cardiff Prop 20p	400	2.05	0.7	30.1	Mar Sept
166.8	Chesterfield	853	†14.5	2.3	31.10	July Dec
35.4	Do. 5.25% Cv. Cm. Pf.	118	5.25	5.9	13.3	Apr. Oct.
43.7	Christie Grp 2p	188	L3.5	2.5	28.11	–
24.7	City Gate Ests.	313	L8.25	3.5	16.1	–
7.45	Do. 3¾pc Cv Rd Pf.	308	3.75	1.6	13.3	Sept Mar
20.3	Citygrove 10p	238	7.5	4.4	19.9	November
9.63	Do. 7¾pc Cm Cv Rd Pf.	118	7¾%	8.8	14.11	May Nov
33.3	City Site Estates	228	1.34	0.8	28.12	Jan Aug
20.6	Clarke Nickolls	208	4.5	3.0	3.10	July Nov
99.3	Clayform Props 5p	299	18.5	3.8	31.10	Dec. June
2.59	Do. Warrants	76	–	–	–	–
17.6	Compco Hldgs 20p	850	9.0	1.4	15.8	October
59.0	Connells Est Agts 5p	265	†8.0	4.0	3.10	May Nov
15.5	Cons Tem Ins 20p	31	–	–	24.2	Sept Mar
222.7	Control Secs. 10p	43½	a0.75	1.6	28.11	July
30.0	Corp. Ests. Props.	67	M3.0	6.0	31.10	May Nov
20.0	Cussins Prop. Grp.	280	†7.2	3.4	3.10	July Nov
171.7	Daejan (Hldgs)	1055	19.0	2.4	30.1	Mar. Sept
67.5	Dares Estates 5p	32½	1.3	5.3	13.3	Nov June
15.1	de Morgan Group 5p	98	†2.9	3.7	28.11	Feb Aug
50.6	Debenham Tewson 5p	166	†5.0	4.0	16.1	Feb Aug
38.8	Dencora	230	3.0	1.7	23.5	July

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Contd

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Contd

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
–	Sceptre Res	199	–	–	–	–	–
[illegible]	Shell Trans. Reg.	391	17.0	5.8	13.3	Nov. May	4003
7.00	Do. 7pcPf. £1	70	4.9%	9.3	28.12	Feb. Aug.	4005
17.0	Silkolene	485	†9.0	3.0	14.11	Jan May	4021
6.25	Southwest Res. 40p	12	–	–	1'85	–	4066
104.9	Sovereign Oil	189	–	–	–	–	4067
12.1	TR Energy 10p	14	–	–	–	–	4275
1,730.8	Texaco 8pc Cnv	£182½	Q8%	7.8	27.10	Apr. Oct.	4201
1,726.0	Total-Cie Fr Pet B	£59½	Q40%	4.7	2.7	July	–

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

Tins

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
3.66	Ayer Hitam SM1	48	[illegible]	–	9.3	Apr. Nov.	1714
12.8	Gevor	91	–	–	5.85	–	2670

Miscellaneous

THIRD MARKET

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
7.25	Propeller 1p	58	–	–	–	–	3729
2.56	Rentaminster 5p	63	F2.0	4.2	30.1	–	5238
8.19	Royal Sovereign 10p	185	†4.6	3.3	3.10	May Nov	1505
1.40	Scott Pickford 10p	28	3.1	20.7	–	–	5062
8.33	Seacon Hldgs.	128	Z1.0	1.1	19.9	October	3968
1.00	Sonic Tape 2½p	8	–	–	–	–	5152
3.87	Stats Hldgs. 5p	14	–	–	–	–	4625
3.92	Swanyard Studios 1p	24	–	–	–	–	4666
37.1	Tatare	425	1.0	0.3	27.2	–	4647
5.04	Tomorrows Leisure 20p	45	–	–	–	–	4248
12.9	Tullow Oil 10p	18	–	–	24.2	–	4886
4.43	UPL Group 10p	118	L2.41	2.9	28.11	June	4362
7.23	Unit Group	140	F7.5	7.1	28.11	Jan July	4357
25.0	Whitegate Leisure 20p	29	–	–	–	–	1105
1.11	Do. Wrrnts	16½	–	–	–	–	1116
29.9	Wilton Group 1p	8½	–	–	–	–	3628

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ψ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- ‖ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- ♦ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs ⊕ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p ψ	93	......
Craig & Rose £1 ψ	720	......
Finlay Pkg. 5p ψ	93	......
Holt (Jos) 25p ψ	1275	+5

IRISH

Cap. 8½% Ln. 1991	£100¾	......
9pc Cap Ln 1996	£101	......
Fin. 13% 97/02	£122	......
Arnotts	405	......
Carrol (P.J.) ψ	150	......
Hall (R. & H.)	145	......
Helton Hldgs. ψ	74	......
Irish Ropes	166	......

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	48
Amstrad	18
BAT	48
BOC Grp	36
BSR	7½
BTR	26
Barclays	34
Beecham	40
Blue Circle	39
Boots	20
Bowaters	38
Brit Aerospace	42
Brit. Telecom	21
Burton Ord	18
Cadburys	31
Charter Cons	45
Comm Union	28
Courtaulds	26
FKI Babcock	13
FNFC	21
Gen Accident	71
GEC	15
Glaxo	90
Grand Met	38
GUS 'A'	90
Guardian	16
GKN	28
Hanson	12
Hawker Sidd	48
ICI	85
Jaguar	22
Ladbroke	38
Legal & Gen	26
Lex Service	34
Lloyds Bank	29
Lucas Inds	44
Marks & Spencer	15
Midland Bk	35
Morgan Grenfell	28
NEI	12
Nat West Bk	45
P & O Dfd	48
Plessey	15
Polly Peck	28
Racal Elect	25
RHM	32
Rank Org Ord	65
Reed Intnl	38
STC	24
Sears	13
TI	32
TSB	9
Tesco	12
Thorn EMI	55
Trust Houses	24
T&N	16
Unilever	42
Vickers	15
Wellcome	42

Property

Brit Land	30
Land Securities	52
MEPC	50

Oils

Brit Petroleum	21
Do. (P.Paid)	12
Burmah Oil	48
Calor	35
Charterhall	2½
Premier	9
Shell	85
Ultramar	21

Mines

Cons Gold	100
Lonrho	38
RTZ	40

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £985 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

CURRENCIES AND MONEY REVIEW

A wet eye follows a dry Budget

"SHOW ME a man with a dry eye and I'll show you a man with no soul", said the commentator on BBC Television after Desert Orchid, Britain's favourite horse, won the blue riband event, The Tote Gold Cup, at the Cheltenham National Hunt Festival on Thursday.

It sums up the feeling in the City on a dull and rain swept day, when there was very little else to cheer about. As "Dessie" battled across the line long gilt futures rose two ticks on the Liffe market, to 98-13 bid from 98-11 bid, and dealers could find no other explanation for the rise.

Thursday had otherwise not been a very encouraging day, as a batch of economic figures - and particularly rising wage costs - suggested inflation remains a major problem for the Government.

The Budget on Tuesday was obviously framed with this in mind. It was described as the Budget the city wanted, but hardly dared expect. It has not produced any great incentive to trade in fixed interest rate instruments however.

Unless the pound comes under pressure the volume of trade in short sterling futures on Liffe could be low in the next few months. Prices point to a cash Libor rate of over 13 per cent at delivery in June, and 12½ per cent in September. Not until December do prices indicate that base rates could be down to 12 per cent.

The clear message from the Budget is that sterling will not be allowed to fall. Reducing inflation is a cornerstone of Conservative Party policy for the next election, and the real battle against inflation will be fought on the foreign exchanges, according to Mr Roger Bootle, chief UK economist, at Greenwell Montagu.

The Chancellor expects inflation to peak at 8 per cent, falling to 5½ per cent by the end of the year and to 4½ per cent next year. The City is sceptical that this will be achieved, but if it is the Government would then be in a position to provide tax cuts and push interest rates lower in the run up to an election, which many expect to be in 1991.

On domestic grounds there is probably no need for UK base rates to increase further following the Budget, but if defence of sterling is paramount a rise could be forced on the authorities. Chase Investment Bank in London has forecast that base rates could go up to 15 per cent if there is pressure on the pound from higher US and West German rates.

Fear that the Federal Reserve will further tighten its monetary stance increased on Friday after a rise of 1 per cent in US producer prices, more than double the expected figure. With the D-Mark weak, the Bundesbank may be only waiting to see whether recent monetary tightening has been sufficient to contain inflationary pressure.

One fact the markets have been slow to take note of is that the Bank of England is more concerned about sterlings value against the dollar than the D-Mark. If asked the current exchange rate dealers tend to reply DM3.21 and not $1.7150, because of the change in psychology over recent years, upgrading the importance of the German currency.

Keeping the pound strong against the D-Mark has a very slow impact on inflation however. It may squeeze company profits and depress wage rises, but latest figures on wage costs are not even very encouraging on this score. On the other hand by holding sterling strong against the dollar it also reduces the level of imported inflation, by keeping down the price of raw materials. If sterling does need support the Bank of England is more likely to direct it at the dollar than the D-Mark.

Colin Millham

£ IN NEW YORK

Mar.17	Close	Previous Close
£ Spot	1.7125-1.7135	1.7200-1.7210
1 month	0.40-0.38pm	0.42-0.40pm
3 months	1.10-1.06pm	1.15-1.12pm
12 months	2.80-2.70pm	3.02-2.92pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

[illegible]

CURRENCY RATES

Mar.17	Bank rate %	Special* Drawing Rights	European Currency Unit
Sterling	-	0.758432	0.648864
U.S Dollar	7	1.30511	1.11378
Canadian $	11.54	1.56156	1.33041
Austrian Sch.	4	17.1544	14.6473
Belgian Franc	7.75	51.0885	43.6099
Danish Krone	7½	9.50316	8.12110
Deutsche Mark	4	2.43899	2.08220
Neth.Guilder	5.00	2.75313	2.34951
French Franc	9½	8.29874	7.05020

*All SDR rates are for Mar.16

CURRENCY MOVEMENTS

Mar.17	Bank of England Index	Morgan** Guaranty Changes %
Sterling	96.3	-15.3
U.S Dollar	68.3	-10.1
Canadian Dollar	102.0	-1.0
Austrian Schilling	106.5	+9.7
Belgian Franc	105.6	-6.3
Danish Krone	102.7	-2.1
Deutsche Mark	112.5	+20.3
Swiss Franc	106.7	+16.3
Guilder	109.8	+12.8

OTHER CURRENCIES

Mar 17	£	$
Argentina	71.4500-71.6600	41.7000-41.8000
Australia	2.0905-2.0930	1.2200-1.2215
Brazil	1.7050-1.7145	0.9950-1.000
Finland	7.3610-7.4240	4.2800-4.3200
Greece	267.70-272.20	156.90-158.45
Hong Kong	13.3535-13.3665	7.7965-7.7985
Iran	121.25*	69.75*
Korea(Sth)	1153.25-1162.55	670.50-675.90
Kuwait	0.49590-0.49700	0.28960-0.29010
Luxembourg	67.20-67.30	39.20-39.30
Malaysia	4.7155-4.7270	2.7530-2.7550

*Selling rate

EURO-CURRENCY INTEREST RATES

[illegible]

EXCHANGE CROSS RATES

[illegible]

POUND SPOT- FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

[illegible]

MONEY MARKETS

US producer prices send shivers round the world

SHIVERS RAN through financial markets on Friday, following a much larger than expected rise in US producer prices. It had been hoped that the US Federal Reserve and the West German Bundesbank would wait to see if the last round of interest rate increases has slowed inflationary pressure, but Friday's news came as a setback.

A rise of 1.0 per cent in February US producer prices was equal to the increase in January, and well above market forecasts of around 0.4 per cent.

Share prices fell sharply on Wall Street and in Europe as markets braced themselves for a further round of monetary tightening. Bonds were also weak, but the dollar rose in expectation of higher US interest rates.

Unsubstantiated rumours circulated that the Federal Open Market Committee held an emergency meeting, although Mr Alan Greenspan, the Fed chairman, was reported to be on his way to give a speech in North Carolina.

Central banks in Europe and the US Federal Reserve intervened to cap the dollar's rise, but only succeeded in holding it below DM1.88. It had previously been assumed that the central banks did not want to see the dollar above DM1.87.

The weakness of the D-Mark against the dollar increased fears of higher German interest rates. Three-month Euro-dollars rose ¼ point to 10⅛-10 per cent and three-month Euromarks by ⅛ per cent to 6⅝-6½ per cent.

In London interest rates moved up about ¼ point, with three-month interbank offered at 13⅛ per cent, compared with 13 per cent before the US figures.

UK clearing bank base lending rate 13 per cent from November 25

MONEY RATES

NEW YORK (4pm) — Treasury Bills and Bonds

[illegible]

LONDON MONEY RATES

[illegible]

FT LONDON INTERBANK FIXING

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS. Figures in parentheses show number of stocks per grouping	FRIDAY MARCH 17 1989 US Dollar Index	% Change Since Dec.30 88	Pound Sterling Index	Local Currency Index	Gross Div. Yield	THURSDAY MARCH 16 1989 US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX 1988/89 High	1988/89 Low	Year ago (approx)
Australia (89)	138.33	-4.3	119.69	112.31	4.88	138.19	119.26	112.50	157.12	91.16	116.18
Austria (18)	104.74	+9.2	90.63	101.96	2.47	103.56	89.37	100.67	104.74	83.72	90.51
Belgium (63)	131.14	-2.9	113.47	127.59	4.06	131.13	113.16	127.25	139.89	99.14	134.03
Canada (125)	134.91	+7.5	116.73	116.94	3.27	136.33	117.65	117.97	137.27	107.06	121.29
Denmark (39)	169.09	-0.8	146.31	168.17	1.87	169.26	146.06	167.93	180.38	111.42	118.66
Finland (26)	143.27	+9.5	123.96	129.29	1.42	141.19	121.84	128.95	147.07	106.78	121.29
France (130)	114.11	-0.8	98.73	113.71	2.87	115.87	99.99	115.19	119.98	72.77	85.25
West Germany (102)	83.85	-4.7	72.55	81.78	2.32	84.07	72.55	81.79	90.40	67.78	80.79
Hong Kong (44)	132.18	+18.2	114.37	132.32	3.67	132.85	114.65	133.01	133.77	84.90	101.82
Ireland (17)	144.77	+9.9	125.26	142.80	3.57	144.67	124.85	142.80	146.46	104.60	119.79
Italy (98)	80.52	-5.4	69.67	82.81	2.45	80.42	69.40	82.47	86.88	62.99	81.74
Japan (456)	185.73	-3.0	160.70	154.50	0.48	187.53	161.83	155.52	200.11	133.61	165.74
Malaysia (36)	160.79	+12.0	139.12	170.54	2.65	160.49	138.50	170.19	160.79	107.83	120.35
Mexico (13)	165.75	+2.4	143.42	430.41	1.19	163.07	140.73	422.92	182.24	90.07	146.71
Netherland (39)	115.44	+2.7	99.89	111.49	4.53	117.71	101.58	113.46	117.71	95.23	109.17
New Zealand (24)	70.59	+4.4	61.08	60.95	6.32	70.99	61.26	61.32	84.05	63.32	78.36
Norway (26)	170.37	+22.6	147.41	157.48	1.80	171.65	148.13	158.61	174.29	98.55	118.93
Singapore (26)	147.62	+18.0	127.73	131.97	2.06	147.56	127.34	131.71	147.62	97.32	113.49
South Africa (60)	140.32	+20.1	121.41	125.20	4.01	140.41	121.17	124.01	140.41	98.26	134.17
Spain (42)	146.45	-1.3	126.72	129.53	3.72	147.04	126.89	129.72	164.47	130.73	146.17
Sweden (35)	157.69	+9.0	136.44	149.34	2.28	157.36	135.80	149.15	158.38	96.92	119.40
Switzerland (57)	75.69	-3.1	65.49	75.86	2.29	75.91	65.51	75.81	86.75	74.13	85.66
United Kingdom (314)	148.40	+9.7	128.40	128.40	4.31	151.56	130.79	130.79	153.33	120.66	139.69
USA (568)	119.18	+5.3	103.12	119.18	3.65	121.84	105.15	121.84	121.90	99.19	110.47
Europe (1006)	118.30	+3.1	102.36	109.44	3.54	119.85	103.43	110.61	120.88	97.01	110.53
Nordic (126)	148.95	+6.7	128.88	146.82	2.00	148.73	128.35	146.72	149.38	95.22	110.57
Pacific Basin (675)	181.46	-2.6	157.00	151.52	0.70	183.13	158.04	152.49	194.72	130.82	161.27
Euro-Pacific (1681)	156.21	-0.9	135.16	134.73	1.57	157.84	136.21	135.76	164.22	120.36	140.99
North America (693)	120.02	+5.4	103.85	119.08	3.62	122.61	105.81	121.63	122.71	99.78	111.05
Europe Ex. UK (692)	99.73	-1.8	86.29	97.68	2.88	100.35	86.60	98.07	103.11	80.28	92.43
Pacific Ex. Japan (219)	130.27	+4.6	112.71	114.02	4.30	130.45	112.58	114.33	137.65	87.51	107.37
World Ex. US (1879)	155.32	-0.5	134.39	134.17	1.64	156.92	135.42	135.18	162.77	120.26	140.25
World Ex. UK (2133)	140.64	+0.4	121.68	129.15	2.04	142.50	122.97	130.63	146.04	111.77	127.68
World Ex. So. Af. (2387)	141.32	+1.1	122.28	129.10	2.24	143.31	123.67	130.68	146.65	113.26	128.69
World Ex. Japan (1991)	120.05	+4.7	103.87	115.89	3.62	122.13	105.39	117.78	122.37	100.00	110.99
The World Index (2447)	141.32	+1.2	122.27	129.07	2.26	143.29	123.66	130.63	146.51	113.37	128.73

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

Irish market closed March 17.

EUROPEAN OPTIONS EXCHANGE

[illegible]

TOTAL VOLUME IN CONTRACTS : 99,076

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

[illegible]

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. s Dividend and yield exclude special payment. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on Prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989/90. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ¶ Issued by tender. ‡ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ◊ Issued in connection with reorganisation merger or takeover. ‡ Allotment price. ◈ Unlisted securities market. ◆ Official London listing. □ Including warrants entitlement. * Third Market.

JOTTER PAD

CROSSWORD

No.6,889 Set by QUARK

ACROSS

1 Some offal is hard and disagreeable (8)
5 Looking at the other side? (6)
10 Shrewd in business in Glasgow (5)
11 Rough bedding signal is ruined in the post (9)
12 Little man in the bar describing the barrel? (5-4)
13 Army in the money (that's something big) (5)
14 Drink very quietly when in a top hat (6)
15 Pushes east in battle for ancient city (7)
18 A symbol of real upset dogging the miners (7)
20 Alkali pocket by side of tree (6)
22 Make safe an animal hole (5)
24 Very pure character (4,5)
25 Gold Cup held in long sort of grass (9)
26 Commend, although without capital, the American salary increase (5)
27 100 reverse? Must get the bird! (6)
28 College types with companions outside the Department of Employment (8)

DOWN

1 The place and the time, in short, for a flying destroyer (6)
2 It spoils the view (9)
3 Place of work? (5,5,5)
4 Imagine one's to drink and put on an act (7)
6 Down the pint and tear around to celebrate (5,3,4,3)
7 Fashionable group led in (5)
8 Apply energy to the ship. It could show this (8)
9 Claim for everything – for example, last bit of change (6)
16 A trace one prefers to be above (9)
17 Acrobatic role in PT uses combination of forces (8)
19 A girl brought up in Dundee is Sally (6)
21 House closed for it? (6)
23 Race over again (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday April 1.

WORLD STOCK MARKETS

AUSTRIA | FRANCE (continued) | GERMANY (continued) | ITALY (continued) | SWEDEN

BELGIUM/LUXEMBOURG | NETHERLANDS | SWITZERLAND | DENMARK | NORWAY | SPAIN | SOUTH AFRICA | FINLAND | FRANCE | JAPAN | AUSTRALIA (continued) | HONG KONG | AUSTRALIA | SINGAPORE

CANADA

TORONTO
Closing prices March 17

MONTREAL
Closing prices March 17

INDICES

NEW YORK DOW JONES

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Citicorp	4,837,300	28¾	+ ⅝	J.P. Morgan	2,371,900	38¾	+ 1⅛
IBM	4,686,100	112½	− 5⅝	American Express	2,361,100	30¼	− ⅝
AT&T	4,510,700	32	− ⅜	BankAmerica	2,264,200	22	+ ⅜
General Electric	3,185,600	44⅞	− 1⅝	Fannie Mae	2,237,400	63¾	− 3⅝
Exxon	2,697,500	45	− 1⅛	Sears Roebuck	2,056,500	43	− ½

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals — 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

SWEDEN Jacobson & P. (31/12/56)	3881.3	3854.8	3869.50	3889.90	3889.90(14/3/89)	2148.5 (4/1/88)
SWITZERLAND Swiss Bank Ind. (31/12/58)	654.2	654.7	650.0	647.4	654.7 (16/3/89)	466.6 (13/1/88)
WORLD M.S. Capital Intl. (1/1/70)	(u)	507.6	506.9	503.9	519.0 (19/2/89)	401.0 (21/1/88)

‡ Subject to official recalculation. † 1989 High & Low.

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia. All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Friday 17 March 1989

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Kobe Steel	47.7m	910	-10	Sanyo Electric	36.3m	909	+18
Aoki Corp	43.5m	1,550	+110	Okumura	35.8m	2,230	+80
Mitsui Toatsu	41.2m	985	+25	Penta Ocean	26.3m	1,640	+170
Nippon Steel	40.6m	938	-6	Nippon Sanso	22.1m	1,150	+110
Kumagai	38.0m	1,830	+50	Nishimatsu	21.4m	1,740	+90

4pm prices March 17

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 43

NYSE COMPOSITE PRICES

Continued from previous Page

[illegible]

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Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices March 17

[illegible]

OVER-THE-COUNTER

Nasdaq national market, 4pm prices March 17

[illegible]

The Business Column

Don't just automate the rule book

If artificial intelligence is such a powerful business technology, why aren't more companies using it? This question forces itself on the reader of a recent book* co-authored by Edward Feigenbaum.

Prof Feigenbaum is a pioneer of "expert systems", the dominant modern AI technology. The book is an account of how such systems are being used around the world. "Savvy as we are about expert systems," the authors report, "we were not prepared for what we saw." The systems they discovered were "speeding up professional work by at least a factor of 10. Speedup factors of 20, 30, or 40 were common."

Some of the stories are indeed impressive. Digital Equipment's expert system for turning customers' orders for new computers into the detailed parts listings required by the factory has often been described. The latest version of the tale, recounted by Prof Feigenbaum and his colleagues, reveals that Digital now has 10 major expert systems, producing savings of $70m a year.

A system installed by American Express to assist the clerks who authorise credit-card charges has also received a great deal of publicity. Its fame stems partly from its results (faster transactions, and a halving of the number of authorised charges that turn bad) and partly from the way it has been linked into the company's mainstream data-processing operations, something that is comparatively rare among publicly reported expert systems.

Stories of heroes and villains

The book's case histories mostly feature heroic individuals, struggling against corporate obstruction to build the system of their dreams; the villains in these stories are usually the corporate computer departments. The cynical reader is forced into a quite untypical sympathy with the beleaguered infocrats. Surely they can't simply have been motivated by blind obscurantism?

A hint that there might be another side to the tale comes in an engaging anecdote from IBM. Once it decided AI was interesting, teams from across the company were encouraged to work on expert systems projects. One such scheme might, in a less intensely serious company than IBM, have seemed a case of corporate self-parody: its designers planned to write an expert system to make it easier to fill in a particularly irritating collection of IBM forms.

One of them describes how he announced the project at a conference at which many other, more grandiose, IBM expert systems plans were unveiled. He paused. "Just as a little plug for ourselves, our application was one of the few that actually got finished."

Many such projects don't get finished. And for a good reason: they are often trying to apply the expert systems technique to unsuitable bodies of knowledge. Many of the most successful expert systems are ones that describe, in essence, the automation of existing rulebooks (as in all three of the examples described here). For such problems, expert systems – with their collections of rules that say "If the situation is a, b and c, the answer is probably d" – are far more practical than traditional programming languages.

But there are relatively few types of problems for which this approach is appropriate. In big service firms, where there has traditionally been an emphasis on limiting the discretion of clerical staff through procedures and manuals, expert systems may find a fruitful home in automating the rulebooks. But to the extent that companies want increasingly to tap the initiative and independence of action of their staff, they will find the other big computer trend of the 1980s – towards networks of powerful workstations with user-friendly, liberating software – more appealing.

**The rise of the expert company, Edward Feigenbaum, Pamela McCorduck, Penny Nii. Macmillan, London, £14.95*

Peter Martin

THE MONDAY INTERVIEW

No room for wrong numbers

David Owen talks to Edmund Fitzgerald of Northern Telecom

In another life, Edmund Fitzgerald might have been an accomplished banker. His unhurried, somewhat taciturn demeanour would have equipped him admirably for that profession. It has also served him well in today's fast-moving telecommunications environment.

Northern Telecom, in common with many of its peers, is struggling to come to terms with the upheaval currently sweeping the telecommunications sector. In December, the company unveiled a comprehensive restructuring programme that resulted in 2,200 redundancies and a $200m extraordinary charge. The charge pushed Northern, headquartered in the charmless Toronto suburb of Mississauga, into the red for the fourth quarter. Net earnings for the year as a whole declined 44 per cent to $183.2m, the lowest level since 1982.

The nature of the industry's problem is two-pronged. On the one hand, growth rates for both public and private exchanges, long regarded as the sector's core business, are beginning to tail off. Moreover, manufacturers' profit margins are being squeezed by intense price competition. On the other, the race to develop the next generation of technology and to break into new geographic markets remains as heated and costly as ever. Northern's spending on research and development has more than doubled during Fitzgerald's 4½ years as chief executive. Last year, it reached 13.1 per cent of revenues, or more than $700m.

Fitzgerald's analysis of the factors behind Northern's recent success do much to explain both the thrust of the company's restructuring package and the ever-increasing emphasis on R&D. In the space of 15 years, the once stuffy company – founded just eight years after Alexander Graham Bell invented the telephone in 1876 – has succeeded Massey-Ferguson as Canada's foremost multi-national manufacturing concern. Two things, Fitzgerald believes, underlie this achievement: being the most innovative company in the business and being the most cost-effective producer. "We are going to continue to plug R&D," he says, "and we are not going to be moved off as the most cost-effective producer. I don't believe we have been moved off yet."

Fitzgerald might have added one further fact – the deregulation of the US telephone market – to explain Northern's rapid advance to world scale. Between 1982 (when Fitzgerald assumed the presidency) and 1985, the improved access to the US market that deregulation afforded helped revenues to soar by 73 per cent to $4.3bn. Net profits rose 142 per cent to $273.8m over the same period.

Fitzgerald expects the industry's transformation ultimately to strengthen Northern's hand. Prevailing trends, like the shift in emphasis away from simple switch production to upgrading existing networks (in a multitude of manifestations) will – he believes – give an important edge to large, innovative producers like Northern. "It is a much more difficult market in which to participate," he says. Northern's technological prowess has been widely recognised since the group pioneered the development of all-digital telephone exchanges along with Alcatel, the French telecommunications company, in the early 1980s.

Similarly, Northern's large and geographically diverse installed base – which Fitzgerald describes as "a sort of annuity" – gives it a tremendous advantage over less well-established competitors. "The issue is: do you have an architecture that is sufficiently broad that you can gracefully implant on that architecture what the market needs – and do it earlier than anyone else can?" he says.

Fitzgerald also regards as a positive development the process of deregulation that is tilting the balance of power in the market away from the big monopolistic network operators, who have traditionally called the shots. The first flush of competition has already sparked a clamour among telephone companies for the means to maximise income through new features.

"The pressure is on equipment manufacturers to design equipment that provides them with the ability to offer new services that can provide new revenue streams on their fixed investment," says Fitzgerald. "The leverage on new services is very high . . . That network is sitting out there and it is all paid for."

As regulatory encumbrances are removed – at greatly varying speeds – around the world, Fitzgerald expects the direction of new developments to be increasingly dictated by the end-user. "The telephone company is not the ultimate consumer, the user of telecommunications services is. The more regulated a market is, the less that is true.

"People try to build cars that other people want to buy. They want to package cornflakes in a way that makes people want to buy them. Ultimately, we are headed for that kind of market – and probably quicker than most believe."

PERSONAL FILE

1926 Born Milwaukee. Electrical engineering BSc from University of Michigan.

1946 Joined electronics company Cutler-Hammer

1969-78 Chairman and CEO, Cutler-Hammer

1978-79 Chief operating officer, Eaton Corporation

1980 President of Northern Telecom's US subsidiary

1982 President of Northern Telecom

1984 Chief executive officer

1985 Chairman and CEO

Fitzgerald is a Milwaukee-born electrical engineering graduate who spent more than 30 years with the electronics firm Cutler-Hammer. He is perhaps fortunate to report to a controlling shareholder, the telephone and gas utility, Montreal-based BCE, which shares his patience. The increasingly diversified group, which still holds 100 per cent of its old core, Bell Canada, supplies only two of Northern's 20-member board. "I have never got anything from BCE except very strong support," says Fitzgerald.

Like other telecommunications manufacturers, Northern has found it difficult to penetrate overseas markets. This has effectively prevented the formulation of a coherent global strategy. Companies have had to be ready to pour resources into individual markets on an ad hoc basis as opportunities open up.

The strategic importance attached by nations to maintaining a telecommunications capability has meant that such openings have usually entailed investment in the host country – a situation which a sceptical Fitzgerald does not expect to change. He thus sets particular store by Northern's recent breakthrough in Japan, where it has become a supplier in a small way to NTT, the large public telephone operator.

"I don't think you can effectively be in the telecommunications business and not have some sort of situation in Japan," he says. "We were persistent and patient . . . It took us six years to get an order and cost us about $60m – but we got it." It remains to be seen whether this initial success will blossom into a relationship of lasting commercial significance. In the meantime, Fitzgerald says, Northern's intensive efforts have already yielded some unexpected benefits. "NTT probably had the stiffest requirements of anyone we have ever sold to. Our product is better today because we sold it to the Japanese. They forced disciplines and standards on us."

Just as the US-Canada free trade agreement has been followed by rationalisation of Northern's North American operations, so the advent of the European single market after 1992 should permit the group to move towards integration of its sundry European investments. Northern holds 27.5 per cent of STC, the UK electronics company, and will shortly open its first European plant at Verdun in northern France.

"The Europe we have been working in over the past 20 years has been a compartmentalised Europe," Fitzgerald says. "Assuming 1992 is real, we now have to convert that compartmentalised operation into what will become a number of centres of excellence that integrate themselves. I think we will be able to make this conversion as quickly as Europe can."

As the new structure develops, Fitzgerald expects the UK to emerge as Northern's European base for public network products, with France the centre for business communications systems and West Germany for packet data networks.

The convoluted saga of the GEC/Siemens bid for Plessey has sparked persistent speculation that STC might become involved – with Northern's backing – in a takeover of GPT, the joint venture telecommunications company owned by GEC and Plessey.

While Fitzgerald does not rule out that possibility, he alludes to Meredith Willson's popular musical The Music Man to imply that any such decision would be made by STC. "The opening scene," Fitzgerald recalls, "was a bunch of salesmen riding along in a railroad car. The song they sang was 'You have got to know the territory.' In the UK, STC is the man who knows the territory. Therefore, we are significantly influenced by their views of what should be done. As long as it is not something to which we are diametrically opposed or don't have the resources to support, we are going to go with them."

At 63, Fitzgerald – a former US Marine and co-founder of the Milwaukee Brewers baseball team – has just named his successor: Paul Stern, a former president of Unisys, the US computer company formed by the merger of Burroughs and Sperry. Stern will succeed to the chairmanship in April 1990. The appointment prompted speculation that Northern might be preparing to plunge back into the computer business, from which it withdrew, bruised, earlier in the decade. Attempts to build bridges between the telecommunications and computer industries have to date generally disappointed their progenitors' lofty expectations. Fitzgerald, at least, denies any such intentions. "Northern has had its fling at the computer industry and doesn't want to go back into it . . . I helped to beat the last part of it to death."

Fitzgerald points instead to other aspects of Stern's background that caught his eye. "Paul Stern's significant international experience, and the fact that he is an American and when I leave we will lose the only American in our top management echelon were both important. I also think whoever heads this company should have a better knowledge of technology than I do. He has a doctorate in physics from Manchester University."

Though the time is past when the appointment of an American to such a post would have been controversial in Canada, Fitzgerald's comments indicate just how critical the US market has become to the company. The US accounted for more than 60 per cent of overall 1987 revenues and a similar propostion of identifiable assets. The company, which has never flaunted its Canadian identity south of the border, now has as many US as Canadian employees.

'I don't think you can be effective in telecommunications and not be in Japan'

Singapore's banning of Mr Lester

JUSTINIAN

The Singapore Government's withdrawal of permission to Mr Anthony Lester QC to practise in the courts of Singapore, which drew a riposte from the Foreign and Commonwealth Office, revealed the fundamental difference in approach to the role and function of lawyers in society.

The barring of Mr Lester centres on his appearance on behalf of one of originally 22 persons detained without trial under Singapore's internal Security Act. His client Miss Teo Soh Loong (herself a lawyer) had in August 1988 brought habeas corpus proceedings which failed. In December, however, her appeal was successful, the Court of Appeal sweeping away a line of cases which had hitherto made ministers' decisions to detain persons who were considered a threat to national security virtually unchallengeable. Predictably the Singapore Government immediately re-arrested Miss Teo and in double quick time passed through the legislature a bill to reverse retrospectively the court's decision and the reasoning for it. It simultaneously blocked any future appeal to the Judicial Committee of the Privy Council which involve cases under the Internal Security Act. The minister's immunity from judicial review was restored. Habeas corpus – the legal bulwark against arbitrary restrictions by government on individual liberty – became a dead letter in Singapore.

Despite the rebuff of his client's case, Mr Lester returned to the forensic fray to challenge the validity of Miss Teo's re-arrest. The hearing before the High Court ended 10 days ago and the result is awaited.

Prior to the recent hearing Mr Lester was told by the Singapore Government that his professional visitor's pass to appear for Miss Teo would be Mr Lester's last case in Singapore. Appeals from London against the barring of any appearance in the Singapore courts were rejected. During the exchange of communications it became clear what had aroused the ire of the Singapore Government and the withdrawal of a privilege which is accorded generally – and generously – to Queens Counsel from England whom Singaporeans wish to instruct in cases that either present peculiar difficulties or some legal specialism, or where for political reasons local lawyers are fearful of incurring the displeasure of the Government and possible curtailment of their professional careers.

Mr Lester's offence, it appears, was his interference in the domestic politics of Singapore other than what he said and did in the course of his forensic advocacy. As evidence of such interference, the Government pointed to an occasion when Mr Lester was alleged to have told a seminar at the School of Oriental and African Studies in the University of London that he was unhappy at the arrest of his client and that he was briefed to take on Miss Teo's case "because Singapore's lawyers were afraid to take it, lest they be arrested." The Singapore Government was not slow to retort that the view said to have been expressed by Mr Lester was baseless and preposterous.

Following the communication of the ban on Mr Lester last month the Foreign and Commonwealth Office told Singapore's High Commissioner in London that Mr Lester was a highly regarded professional lawyer and enjoyed that reputation throughout the Commonwealth and European Community where over the years he has been a frequent practitioner. His exclusion from the Singapore courts, according to the Foreign Office spokesman, would be "bound to cause widespread dismay going beyond the United Kingdom." That message was conveyed contemporaneously by the UK High Commissioner in Singapore to the Permanent Secretary to the Singapore Ministry of Foreign Affairs.

Over the years several English QCs have fallen foul of governments in Commonwealth countries where the English professional qualification provided an entrée into the courts of former British colonial territories. But rarely, if ever, has the British Government publicly taken up the cudgels of an individual barrister, as they have done in the case of Mr Lester. This is in spite of the fact that most of them likewise have, to use the phrase attributed by the Singapore Government to Mr Lester's conduct, "mixed up a human rights crusade with legal duties to the court."

Singapore under Lee Kuan Yew's Prime Ministership, with his increasing grip on the political life of an economically successful city state, has by implication declared its attitude towards the legal profession and other professionals. In effect lawyers must stick to their last. If they want to engage in politics they must become politicians to the exclusion of any other activity or occupation, and support the People's Action Party which has a virtual monopoly of parliamentary power. Opposition parties in Singapore are barely countenanced as part of the political scene.

This is all very different from the attitude in Britain. Practising lawyers have always been permitted dual lives – their professional practices and their extra legal involvement in public life. Many barristers simultaneously are members of parliament. Only ministerial office takes them away from legal practice.

The dismay expressed by the Foreign Office at Singapore's treatment of Mr Lester will be no less shared by Mr Lester's professional colleagues. Twenty years ago the Honourable Society of the Middle Temple made Lee Kuan Yew an Honorary Bencher, which Singapore's Prime Minister is known to be proud of being. It may be the Benchers of this Inner Court will now at least contemplate threatening to "disbench" their Honorary Bencher. Such a move might help to restore, as the lawyers would put it, the *status ante quo* of the banning of Mr Lester.